S. HRG. 116–453

SENATE BUDGET COMMITTEE HOUSING ROUNDTABLE: EXAMING FEDERAL HOUSING ASSISTANCE PROGRAMS

ROUNDTABLE

BEFORE THE

COMMITTEE ON THE BUDGET UNITED STATES SENATE

ONE HUNDRED SIXTEENTH CONGRESS

SECOND SESSION

September 16, 2020

Printed for the use of the Committee on the Budget

U.S. GOVERNMENT PUBLISHING OFFICE
44–022 WASHINGTON : 2020

COMMITTEE ON THE BUDGET

MICHAEL B. ENZI, Wyoming, *Chairman*

CHARLES E. GRASSLEY, Iowa	BERNARD SANDERS, Vermont
MIKE CRAPO, Idaho	PATTY MURRAY, Washington
LINDSEY O. GRAHAM, South Carolina	RON WYDEN, Oregon
PATRICK TOOMEY, Pennsylvania	DEBBIE STABENOW, Michigan
RON JOHNSON, Wisconsin	SHELDON WHITEHOUSE, Rhode Island
DAVID A. PERDUE, Georgia	MARK R. WARNER, Virginia
MIKE BRAUN, Indiana	JEFF MERKLEY, Oregon
RICK SCOTT, Florida	TIM KAINE, Virginia
JOHN KENNEDY, Louisiana	CHRIS VAN HOLLEN, Maryland
KEVIN CRAMER, North Dakota	KAMALA D. HARRIS, California

DOUG DZIAK, *Republican Staff Director*
WARREN GUNNELS, *Minority Staff Director*

CONTENTS

WEDNESDAY, SEPTEMBER 16, 2020

SENATE BUDGET COMMITTEE HOUSING ROUNDTABLE: EXAMINING FEDERAL HOUSING ASSISTANCE PROGRAMS

WEDNESDAY, SEPTEMBER 16, 2020

U.S. SENATE,
COMMITTEE ON THE BUDGET,
Washington, D.C.

The Committee met, pursuant to notice, at 2:32 p.m., in Room 608, Dirksen Senate Office Building, Hon. Michael B. Enzi, Chairman of the Committee, presiding.

Present: Senators Enzi, Grassley, Crapo, Braun, Scott, Kaine, and Van Hollen.

Staff Present: Doug Dziak, Republican Staff Director; and Alex Beaton, Minority Policy Advisor.

OPENING STATEMENT OF CHAIRMAN MICHAEL B. ENZI

Chairman ENZI. I will go ahead and call this meeting to order. Welcome to this roundtable. This is a topic where Senator Sanders and I probably have a lot of agreement. Senator Mikulski and I had success working some of these housing issues.

I have worked on more and better housing for people since 1975. I was mayor of a small boomtown. We were already impacted by oil development, but that was to be nothing compared to the power plant construction and the opening of 14 coal mines, one of which would turn out to be the world's largest producing coal mine.

It takes people to do those things, and people need housing. I also found that once people had a home, they were ever more concerned about, and involved in their community. I worked to get affordable housing. I did a city plan that called for a mix of housing types in all the neighborhoods. The mix was more important before everyone had air conditioning, because people used to sit on the porch and visit with neighbors. There was more knowledge and understanding of neighbors.

I did get companies to voluntarily even dig a channel through the community in order to change the 100-year flood plain, so houses could be built in logical places. I got companies to actually build a mix of housing. Wyoming recognized the housing problem and started the Wyoming Community Development Authority, whose primary instruction was to provide financing for first-time home buyers. People camped out at the offices in order to be early in the line, expecting the money would run out. It did, but it was quickly replenished because it was making a difference.

When I was in the Wyoming legislature I participated in building Habitat for Humanity houses. I want you to know I am a great left-handed hammerer. There are some places where a right-handed hammerer almost has to be upside down to get at it. I was not just there for the photo opportunity, and later, because of Wyoming wind, campaign signs have to have particle board backing. Some of my signs are now donated parts of the subflooring in Habitat houses.

Since coming to the Senate, I have been able to raise my interest to a new level, but I am appalled at how little progress we have made. We appear to be an employment agency for thousands of Federal workers. Competing regulations, duplication, and turf protection keeps people from homes. Our goal is not to have more in Federal employees. It is to get housing and homes for the millions.

I visited one agency and found some people proofreading copies of documents. I asked how they correct the original if they found a mistake. They told me they did not have to worry about that because they seldom found a mistake. Put that effort in the category of wasted time, and it does not say much for management either.

I have also discovered we are paying off thousands of housing units but the people we want to help do not get them when it is paid for. They get no ownership, and neither does the Federal Government. Yes, we subsidize construction and we pay off properties that then belong to the developer.

A friend of mine, Pat Goggles of the Arapaho Tribe, used a gym on the reservation to put on a housing open house for Tribal members. There were several booths set up to teach and explain how to buy a house, care for it, handle emergencies, and pay for it. The first stop, though, was to get help filling out a housing loan application. He and I were both surprised to find that two-thirds of the families who came qualified for a home loan.

The booths also had videos on the housing purchase process. Most importantly, trained staff were there to help figure out what programs would work best. I have been pleased at some of the unique efforts separate from Congress and the Federal Government.

We have built a bureaucracy of 160 overlapping housing programs at a time when we need to change the focus to getting people into housing. One hundred sixty programs, administered by 20 different Federal agencies. I am pretty certain no Senator has looked at the details of those 160 programs. I even doubt that staff has. I asked the entities themselves to look at duplication. This probably will not surprise you. Each entity reported back that there is no duplication in their jurisdiction.

I think that helps us to see the problem. Every agency wants the joy of talking to people about the potential for housing. We do not need talk. We need action. We need management and coordination. We need to resolve overlaps and confusion.

I want to thank the Government Accountability Office, GAO, for all their work through the years. I hope the current document is not another effort that will just gather dust. It now requires some detailed work by several committees, which is where we run into the jurisdictional issues.

At one time, Senator Kennedy and I were looking at preschool children's education programs, and we found 145 different preschool—well, they were not different. Many had changed from education to babysitting. We got that number down to 45. You know why it was not less? Many of them were not in our jurisdiction, and that is a problem with housing as well.

Today's Budget Committee roundtable purpose is to examine Federal housing assistance programs. The goal of this roundtable is to understand how housing assistance is delivered, and more importantly, how we can improve it. Rather than structure this as a hearing, which in my experience results in less learning on our part and more political points being made, I have structured this discussion as a roundtable.

A roundtable is designed to gather information, to allow witnesses and members to engage in thoughtful conversation, and hopefully identify some solutions to the specific problems. This works a little different than a regular hearing. After the opening statements and then the witness statements we will ask some questions, but rather than a question just being directed to one witness, other witnesses can comment. Given that all of our witnesses are appearing by video, I would ask that they raise their hand if they want to speak, when a topic comes up.

Hopefully, as a result, we will come away with many ideas, and that has been my experience with roundtables.

I would like to welcome the three experts joining us today, Daniel Garcia-Diaz of the Government Accountability Office, GAO; Professor Edgar Olsen of the University of Virginia; and Diane Yentel, the President and Chief Executive Officer of the National Low Income Housing Coalition. Thank you all for joining us. I look forward to your testimony.

We can come together at a difficult time for our nation. A global pandemic has sent shockwaves through our economy. It has caused businesses to shutter and it has caused jobs to be lost. Against this backdrop, the Federal Government's current approach to housing assistance is falling short in many ways. As Congress considers additional measures to address housing needs in the wake of COVID, it is worth reviewing the current state of Federal housing programs and seeing what works and what does not, so that we can better determine what form those measures should take.

I know some would disagree. Critics may argue that working to reform the system could hurt certain constituencies, but that is not what we are about. And usually if we get into the details, those can be solved. But the Federal housing system is already failing. People are being left out.

Today the Federal Government spends more than $50 billion per year on low-income housing assistance programs. It also guarantees $2 trillion in home loans, and it provides billions more in assistance through the tax code. Is that money achieving its intended purpose?

We can do better. We better do better. With half a million people homeless, and given the significant amount we spend, there are still years-long waiting lists for public housing. Studies have shown that public housing and project-based programs can trap families in high poverty neighborhoods, which has significant long-term consequences for both their health and their well-being.

And programs are scattered across agencies, creating confusion and significant challenges for those seeking assistance. Federal housing bureaucracies have grown so large that they are now failing those they should be serving. Most Americans do not even know the full extent of the programs available or where they can go for help.

Critics may also argue that Federal housing programs cannot be one size fits all, but in a 2012 report, GAO found housing assistance is fragmented across the 160 programs I mentioned, with significant areas of duplication and overlap. One size fits all may not be the answer but serving the need should not take 160 programs.

The GAO report also found that of those 160 programs, 39 helped with buying, selling, or financing a home. That is some duplication! Twenty-five provided assistance for financing rental housing and eight provided assistance for rental property owners. How many places do you have to go and ask questions to see if you qualify and to get answers? The report found that significant overlap existed in the assistance offered, the service delivered, and even the areas served.

Finally, the report said opportunities existed to increase collaboration and potentially realize efficiencies. Mr. Garcia-Diaz, I look forward to hearing GAO's update today. I think the issue comes down to a simple question: If given the amount of resources the Federal Government puts into Federal housing assistance programs each year and setting aside interest groups that may profit from the status quo, would we ever design a system with 160 programs?

With programs scattered across multiple Federal agencies, the system leads to overlap and waste and actually limits resources that should be going to those in need. We need to get the money to the people.

I hope this is the start of a serious bipartisan review to find improvements to the system. That is why we are here, to identify solutions and gather ideas about reform and to discuss how to make these programs work better for those who truly need them.

Thank you again to the panelists for joining us. I welcome your insights and look forward to them, as we work together to find common solutions to these challenges.

With that I now recognize Senator Van Hollen, standing in for the Ranking Member, for his opening statement. Senator?

OPENING STATEMENT OF SENATOR CHRIS VAN HOLLEN

Senator VAN HOLLEN. Well, thank you, Mr. Chairman, and thank you for holding this hearing. Thank you for your efforts both in the Senate and previously as mayor, on affordable housing. And I know that the Ranking Member joins me in agreeing with you that to the extent that we can find efficiencies in our current Federal housing programs we should do so. We want to make sure that the resources being provided travel just as far as they can go, in terms of achieving the goal of affordable housing.

I think it is also fair to say, I think there would be broad agreement on this, that even if we squeezed every dollar of efficiency out of the current system, we are still going to have an affordable housing crisis in the United States of America. That is, of course, very acute right now during the pandemic, as you mentioned, and I am going to say a word about that in a moment.

But as you indicated, that affordable housing crisis actually predates the pandemic. In fact, in the United States today there are over 18 million families paying more than half of their limited income toward housing. That leaves very little for other essentials like food and transportation and health care, much less the ability to put aside and sock away a little bit for getting ahead and making other important investments.

In fact, the numbers show that there is no State, no metropolitan area or county in this country where a minimum wage worker putting in 40 hours a week can afford a modest two-bedroom apartment. And if you are working 40 hours a week, I think most of us agree you should be able to have enough to have a safe and affordable place in which to raise your family.

Meanwhile, as you said, Mr. Chairman, we have over half a million Americans homeless on any given night, and many of these are working families with children, many are veterans and others have mental illness.

And so the resources we provide are important. Unfortunately, if you look at this administration's budget—and these are just facts, not political rhetoric—we see deep cuts proposed. In fact, if you look at the most recent Trump administration budget they ask for $100 billion in cuts to housing assistance and proposed eliminating the National Housing Trust Fund and other programs to build and preserve affordable housing. It would also end funding for public housing repairs that are desperately needed.

Now I am pleased to report that the Congress, on a bipartisan basis, has rejected those proposed cuts, but I dare say that even if we were to squeeze every dollar of efficiency out of the program those cuts would still have a huge damaging impact, the $100 billion proposed cuts.

And so we have got to also address the shortage in housing for lowest-income families. Right now there is a shortage of about 7.5 million homes in the country. And that is all just before the pandemic hit. We now know that Americans are experiencing economic hardships we have not witnessed, since the Great Depression of the 1930s. Americans have lost their jobs, their health insurance, and depleted their savings. Many were able to make ends meet and pay some of the bills with the additional $600 a week in unemployment benefits through the Coronavirus Aid, Relief, and Economic Security (CARES) Act, but the Senate did not extend those provisions as the House, Health and Economic Recovery Omnibus Emergency Solutions (HEROES) Act would have done.

And, in fact, just last week, nearly one-quarter of renters had missed their September rent payments. Let me say that again. A quarter of all renters missed their September rent payments. That is the highest rate since the beginning of the pandemic. And according to a Census Bureau survey, 42 percent of blacks and 49 percent of Latino renters have little or no confidence that they are going to be able to pay their next month's rent on time.

According to Moody's Analytics, renters already owe an estimated $25 billion in back rent, which could grow to $70 billion by the end of the year.

Meanwhile, public health experts continue to tell us that safe and stable housing is vital to combat COVID–19. Not only is it essential for people to have a place to stay and quarantine if they are exposed but the homeless are particularly vulnerable to this disease.

Now the Centers for Disease Control has put in place a moratorium. It is not exactly clear how that will apply. But if it does not fully apply or no matter what, at the end of the day, if we do not provide more in terms of renter assistance, we are going to have 30 or 40 million American households facing eviction, because it will simply be pushing their payments down the road and they will have balloon payments due. And so the estimate is that if we do not do something on the rental assistance front that 30 to 40 million Americans will be at risk of eviction.

That is why, in the Senate, many of us have proposed an Emergency Rental Assistance Act. That is why an emergency rental assistance to the tune of about $150 billion is provided for in the House HEROES Act. Some of those funds could also be used to support mortgages, where people have lost their jobs because of COVID–19.

So, Mr. Chairman, we agree with you that affordable housing is a critical area of inquiry. In fact, it is an emergency now. We have gone from what was bad to even worse. And we join you in looking for efficiencies in the existing programs. But I think we should also all recognize that if we are really going to tackle this issue it will require not just restructuring and reform but additional Federal resources.

And so we thank you for bringing us together. We hope we can come together as a Senate and vote on the emergency rental assistance provisions, which are going to be so necessary to prevent mass evictions in the United States.

So thank you, and I look forward to the testimony.

Chairman ENZI. Thank you, Senator Van Hollen. I would now like to introduce our panel and invite each of them to give about a 5-minute statement, and then we will ask some questions.

Our first witness is Daniel Garcia-Diaz. He is a Managing Director in Financial Markets and Community Investment Team at the Government Accountability Office. Since joining GAO more than 20 years ago, he has led reviews of assistance to homeowners and renters, to mortgage finance programs, and to housing for the special needs population. Mr. Garcia-Diaz, I thank you for joining us today. I appreciate the GAO's work on this issue.

Next I would like to welcome Dr. Edgar Olsen, who is a Professor of Economics and Public Policy at the University of Virginia. He is an expert in low-income housing policy and has published numerous papers. Dr. Olsen has been a consultant in the U.S. Department of Housing and Urban Development (HUD) with six different administrations. He has also been a visiting scholar at HUD and the American Enterprise Institute. Professor Olsen has testified before Congress on several occasions, and I am pleased to welcome him.

Our third witness is Diane Yentel. She is the President and Chief Executive Officer of the National Low Income Housing Coalition. Ms. Yentel has previously worked on affordable housing and community development issues at Enterprise Community Partners, at HUD, at Oxfam America, and at the Massachusetts Coalition for the Homeless.

I want to thank all three of you for joining us today to share your expertise. With that we will now hear your testimony. Mr. Garcia-Diaz, please begin.

STATEMENT OF DANIEL GARCIA-DIAZ, MANAGING DIRECTOR, FINANCIAL MARKETS AND COMMUNITY INVESTMENT TEAM, U.S. GOVERNMENT ACCOUNTABILITY OFFICE

Mr. GARCIA-DIAZ. Thank you Chairman Enzi, Ranking Member Sanders, Senator Van Hollen, and members of the Committee. Thank you for the opportunity to be here today at this roundtable on Federal housing assistance programs.

Over the years, GAO has issued a body of work examining these programs. As you know, the government's system of housing programs, tax expenditures, and other tools is exceedingly complex and fragmented. These programs and activities support a range of efforts such as subsidizing housing construction, paying for rental assistance, and offering mortgage financing, and enforcing fair housing and other regulations.

The work undertaken by these agencies is critical. As you know, safe and decent housing in good neighborhoods is an important part of promoting opportunities for low-income families. Yet the Federal Government reached about 30 percent of very low income families who could qualify for rental assistance. Long wait lists for public housing and voucher assistance are a chronic problem across many communities. In our 2020 report, we found that affordability has declined for a variety of reasons, including that the supply of low-cost rental units has not kept up with demand, more renters competing for the same units, and income not keeping up with housing costs. As we have noted in our CARES Act work, the economic disruption resulting from COVID–19 will add considerable challenges in keeping families in stable housing.

Our work has identified opportunities for consolidating agencies and program activities to reduce program costs, increase efficiency, and hopefully expand access to affordable housing, although many of these options come with tradeoffs that would need to be considered.

For example, we reported that Rural Housing Service (RHS) and U.S. Department of Agriculture (USDA) and Federal Housing Administration's (FHA) single family loan guarantee programs overlap in terms of income, location, and borrower qualifications. Significant percentages of RHS and FHA borrowers could have met criteria for the other program. Merging programs into a single program, however, would pose tradeoffs because of differences in borrower costs and financial risk of RHS and FHA loans.

We have also commented on consolidating local housing agencies. HUD expends considerable resources of overseeing small local agencies which administer a fraction of public housing and voucher units. Further, HUD research has found that larger housing agencies' average cost of administering vouchers tend to be around 20 percent less than smaller ones. Consolidating smaller agencies or greater use of consortiums may reduce costs, improve program economy and scales, and provide benefits to assisted families.

We also have noted opportunities to merge and streamline administrative functions. Merging wait lists, simplified voucher portability rules could improve access to better neighborhoods and potentially reduce overall administrative costs.

In addition to program consolidation we have identified other opportunities to address fragmentation and overlap. For example, we have called for continued evaluation of program costs to identify more cost-effective approaches. For example, our research, as well as those of others, have found that vouchers are more cost effective in providing housing assistance than programs that build housing. Additionally, in 2018, we found that improved data collection and reporting in the Low-Income Housing Tax Credit program could improve program evaluation efforts, help identify opportunities for cost savings, and strengthen efforts to deter fraud.

We have also called for greater interagency collaboration. Inefficiency can arise when a subsidized property has multiple layers of Federal assistance. We have reported that implementing different physical inspection, tenant income reporting, and financial reporting requirements for the same property can create regulatory burden. Interagency efforts to harmonize those requirements across programs may reduce duplicative actions and reduce costs. And some progress has been made in this area, but it is uncertain the extent to which these efforts have been sustained.

In closing, the housing needs of lower-income families are significant, and the Federal Government only reaches a small fraction of that need. Examining how the Federal Government provides housing assistance can open up opportunities to serve additional needy families. Further, in examining how the government delivers assistance, attention needs to be paid in improving service delivery to and support of these families who must navigate through this complex system. Also, property owners and State and local partners who help deliver Federal assistance stand to benefit from more streamlined and compatible requirements across programs.

This concludes my opening remarks and I would be happy to answer any questions you may have.

[The prepared statement of Mr. Garcia-Diaz follows:]

PREPARED STATEMENT OF MR. DANIEL GARCIA-DIAZ

Summary of GAO Work on Housing Program Consolidation Issues

The federal government has played a major role in supporting housing since the 1930s. Federal programs subsidize housing construction and rehabilitation, assist homebuyers and renters, and provide housing assistance to state and local governments through a variety of spending and loan programs, tax expenditures, regulatory requirements, and other activities. The goals of these efforts include encouraging homeownership and providing affordable rental housing for low-income families.

Affordable Rents and Homeownership Remain Significant Policy Challenges

While the federal government subsidizes rents for around 4.4 million households per year, housing assistance is not an entitlement, and more households qualify for assistance than receive it. As GAO reported in 2020, rent burden was most common and most severe among lower-income households, with most of the poorest households paying over half of their income to rent. Affordability has declined for a variety of reasons, including that the supply of low-cost rental units has not kept up with demand.[1] In addition, low-income and rent-burdened households in 2017 were more likely to have to rent units with issues like water leaks, rodents, or heating problems.

In 2020, GAO also examined homeownership trends from 2010–2018 in nine U.S. cities.[2] GAO found that the homeownership rate declined or was flat in all cities, and that owners and recent borrowers were increasingly higher-income, older, and more diverse. None of the nine cities saw a statistically significant increase in the percentage of Black homeowners over the period of GAO's analysis. Finally, the economic disruption resulting from the COVID-19 pandemic will continue to challenge many renters and homeowners in paying for their homes.

Housing Program Fragmentation and Overlap

GAO reports on fragmentation and overlap in federal housing programs and activities found the following:[3]

Federal housing assistance is fragmented. In fiscal year 2010, 20 different federal entities administered 160 programs, tax expenditures, and other tools that supported homeownership and rental housing (see figure 1 on page 6).[4]

Some programs have overlap between assistance offered and populations or geographic areas served. GAO's work assessed the extent of overlap among certain single-family mortgage guarantee programs and among multifamily housing programs.

- ***Single-family mortgage guarantees.*** In a 2012 report, GAO found evidence of overlap among HUD, USDA, and VA programs in the products offered and geographic areas

[1] GAO, *Rental Housing: As More Households Rent, the Poorest Face Affordability and Housing Quality Challenges*, GAO-20-427 (Washington, D.C.: May 27, 2020).

[2] GAO, *Housing: Preliminary Analysis of Homeownership Trends for Nine Cities*, GAO-20-544R (Washington, D.C.: June 25, 2020).

[3] Fragmentation refers to circumstances in which more than one federal agency (or more than one organization in an agency) is involved in the same broad area of national interest. Overlap occurs when multiple agencies or programs have similar goals, engage in similar activities or strategies to achieve them, or target similar beneficiaries. In some instances, it may be appropriate for multiple agencies or entities to be involved in the same programmatic or policy area due to the nature or magnitude of the federal effort.

[4] GAO, *Housing Assistance: Opportunities Exist to Increase Collaboration and Consider Consolidation*, GAO-12-554 (Washington, D.C.: Aug. 16, 2012).

served.[5] For example, 74 percent of HUD-Federal Housing Administration (FHA) borrowers who received loan guarantees in fiscal year 2009 were very low- to moderate-income and therefore met the income eligibility requirement for the USDA-Rural Housing Service (RHS) guarantee program. FHA's program also served a larger number of low- and moderate-income households in nonmetropolitan counties than served by RHS, including areas considered rural or completely rural by USDA. These findings echo findings from a report GAO issued in 2000.[6]

A 2016 GAO report found both FHA and RHS guaranteed large numbers of home purchase mortgages to borrowers in RHS-eligible areas (about 1.5 million mortgages in total) in fiscal years 2010–2014.[7] But FHA served over 35 percent more borrowers than RHS in RHS-eligible areas, while RHS reached a greater number of borrowers in the more rural parts of those areas.

A significant portion of RHS and FHA borrowers also could have met criteria for the other program. For example, 70 percent of RHS borrowers could have met FHA's criteria for credit score, payment and debt ratios, and loan amount (see figure 2 on page 6). However, the percentage fell to 36 percent when considering RHS borrowers who also could have met FHA's 3.5 percent down-payment requirement.

- ***Multifamily housing development.*** In 2012, GAO reported that HUD, USDA, and Treasury all provide financing for development and rehabilitation of multifamily housing for low- and moderate-income households, but differed to varying degrees in products offered, areas served, and delivery methods for programs.[8] For instance, GAO's analysis of data for selected HUD and USDA multifamily financing programs and Treasury's Low Income Housing Tax Credit (LIHTC) program found that 71 percent of the USDA properties were in rural zip codes and 25 percent of properties financed with HUD and LIHTC programs were in rural zip codes.[9]

Potential Consolidation of Agencies, Functions, and Programs

GAO's work has identified opportunities to consider consolidating existing agencies and program activities to potentially reduce program costs, increase efficiency, and increase access to affordable housing. GAO also identified potential data limitations that make a complete assessment of these opportunities difficult and potential tradeoffs that may arise from those efforts. Examples include the following:

Consolidation of agencies and administrative functions. The consolidation of agencies or administrative functions could yield a more efficient oversight and administrative structure for and cost savings in certain housing programs.

- ***Consolidation of local housing agencies.*** A 2008 HUD study found that HUD expends considerable oversight resources overseeing small public housing agencies, which administer just a fraction of assisted units. As GAO reported in 2012, consolidating smaller agencies to reduce the overall number of agencies may reduce HUD's oversight responsibilities and administrative costs.[10] Additionally, GAO

[5]GAO-12-554.

[6]GAO, *Rural Housing: Options for Optimizing the Federal Role in Rural Housing Development*, GAO/RCED-00-241 (Washington, D.C.: Sept. 15, 2000).

[7]GAO, *Home Mortgage Guarantees: Issues to Consider in Evaluating Opportunities to Consolidate Two Overlapping Single-Family Programs*, GAO-16-801 (Washington, D.C.: Sept. 29, 2016).

[8]GAO-12-554.

[9]GAO used data on HUD and USDA program portfolios as of February and May 2012 (respectively). Data on the LIHTC programs are for projects placed in service from 1998 to 2007.

[10]GAO, *Housing Choice Vouchers: Options Exist to Increase Program Efficiencies*, GAO-12-300 (Washington, D.C.: Mar. 19, 2012). For example, in the voucher program, HUD pays a higher administrative fee to housing agencies for the first 600

reported that some of the benefits of administrative consolidation could be achieved through changes to HUD's consortium rule, which governs how housing agencies may collaborate in the provision of affordable housing. GAO did not determine what cost savings, if any, may result from these actions.

- ***Consolidation and simplification of administrative functions.*** In 2012, GAO also found that consolidating wait lists and simplified portability rules could improve access to affordable housing for qualified households and potentially reduce overall administrative costs.[11] However, GAO noted there were no data available to assess the extent to which cost savings may arise from consolidated wait lists or portability.

Consolidation of programs. Opportunities may exist to consolidate certain programs. For example, as GAO reported in 2016, RHS and FHA single-family loan guarantee programs overlap in terms of income, location, and borrower qualifications.[12] And as noted above, Significant percentages of RHS and FHA borrowers could have met criteria for the other program.

However, consolidating the programs into a single program would pose trade-offs because of differences in the borrower costs and financial risks of RHS and FHA loans. The higher loan-to-value ratios (loan amount divided by home value) and lower guarantee fees of RHS loans help make them more affordable than FHA loans.[13] But these features also may elevate financial risks to the federal government from increased loan defaults and less revenue to cover unanticipated costs.[14]

GAO currently has several open recommendations or matters for congressional consideration aimed at reducing fragmentation and overlap or improving efficiencies in housing programs. GAO maintains that continued examination of the benefits and costs of merging housing programs that serve similar markets and provide similar products could help mitigate fragmentation and overlap and possibly decrease costs.[15]

Questions to Consider in Evaluating Potential Program Consolidation

GAO's work has identified potential benefits and challenges from housing program consolidation. In particular, consolidation may lead to ***improved service delivery*** (especially when programs with similar objectives and markets are brought together and conflicting requirements and overlap are reduced) and ***cost savings*** (to the extent that agency overhead and, potentially, staffing are reduced). However, consolidation introduces potential challenges, such as the need to ***assess the products to be offered; establish effective delivery structures; align resources, policies, and requirements***; and ***ensure continuing oversight and performance of existing commitments.***

In a 2015 evaluation and management guide, GAO found that fragmentation and overlap among federal programs can have positive and negative effects on program outcomes, implementation, and cost-effectiveness.[16] Additionally, GAO noted that

vouchers an agency has under lease and a lower rate for all additional vouchers.

[11]GAO-12-300.

[12]GAO-16-801.

[13]RHS loans generally have higher loan-to-value ratios than FHA loans because RHS has no down-payment requirement, while FHA has a statutory 3.5 percent down-payment requirement. Additionally in setting guarantee fees, RHS does not have to raise sufficient revenue to maintain a capital reserve as FHA does.

[14]GAO found that RHS loans would be expected to perform worse than FHA loans, due partly to their higher loan-to-value ratios.

[15]GAO issues an annual report on opportunities to reduce fragmentation, overlap, and duplication in the federal government. This report has included such opportunities for housing assistance program and activities since 2012. See GAO's Duplication & Cost Savings Action Tracker for additional information.

[16]GAO, *Fragmentation, Overlap, and Duplication: An Evaluation and Management Guide*, GAO-15-49SP (Washington, D.C.: Apr. 14, 2015). For additional GAO resources on assessing program consolidation, see GAO, *Grant Program Consolidations: Lessons Learned and*

program consolidation is beneficial in some situations and not in others. As a result, a case-by-case analysis is needed to evaluate the goals of the consolidation against realistic expectations of whether and how it can be achieved and at what cost.

GAO identified the following types of questions to consider in evaluating potential program consolidation:

Outcome and impact questions

- What is the agency's (or agencies') capacity for and commitment to change?
- Will there be significant changes to program benefits, services, or products?
- How will other program be affected?
- Who are the consolidation stakeholders and other participants, how will they be affected, and how have their views been considered?
- Will beneficiaries know where and how to obtain benefits, services, or products?

Implementation questions

- What is the investment required to implement the change?
- What are the likely savings or efficiencies resulting from the change?
- What data exist to support a sufficiently reliable business-case or cost-benefit analysis?

Cost-effectiveness questions

- What are the goals of the consolidation?
- What problems will be solved through the consolidation?
- What, if any, problems will be created?
- Will any benefits be lost or diminished or would any necessary (or protective) redundancies be eliminated?
- What is the likely effect of change on performance measurement, accountability, and the consistency of implementation?

Other Actions to Address Program Fragmentation and Overlap

GAO's work has identified opportunities besides consolidation to potentially address program fragmentation and overlap and to reduce program costs, improve efficiencies, or better assist homebuyers and renters. These include the following:

Facilitate interagency collaboration to reduce inefficiencies. Inefficiencies can arise when a multifamily housing project has multiple layers of assistance (such as subsidies, tax expenditures, or mortgage insurance) from one or more federal agencies. For example, GAO reported in 2012 that implementing different physical inspection, tenant income reporting, and financial reporting requirements for the same property can create regulatory burdens.[17] Interagency efforts to harmonize those requirements across programs may reduce duplicative administrative actions and reduce costs for agencies and program participants.

Evaluate program costs to identify cost-effective approaches. Understanding program costs could help agencies identify the most cost-effective approaches to providing housing assistance and improve program efficiency. For example, research has found that housing vouchers generally have been more cost-effective in providing housing assistance than federal housing development programs designed to add to or rehabilitate the low-income housing stock, but development programs may be more effective in providing affordable housing in certain markets—for

Implications for Congressional Oversight, GAO-15-125 (Washington, D.C.: Dec. 12, 2014); and *Streamlining Government: Questions to Consider When Evaluating Proposals to Consolidate Physical Infrastructure and Management Functions*, GAO-12-542 (Washington, D.C.: May 23, 2012).

[17]GAO-12-554.

example, those that lack affordable supply.[18] Additionally, in 2018, GAO found that improved data collection and analysis in the LIHTC program could improve program evaluation efforts and help identify opportunities for cost savings.[19]

Streamline administrative requirements. As GAO has reported, the Moving to Work program has offered and may continue to offer some insights into how to simplify voucher and public housing administrative requirements and cut program costs.[20] Following early experiences with the Moving to Work program, HUD implemented streamlining measures in the voucher program in 2016, including to biennial inspections.

Align program responsibilities with expertise and mission to increase efficiency. Not all agencies that administer housing programs have housing expertise or missions. For example, the IRS-administered LIHTC program is the largest source of federal assistance for developing affordable rental housing. However, GAO's 2015 report found that LIHTC is a peripheral program for IRS in terms of resources and mission and IRS's oversight of the program had been minimal.[21] Leveraging the experience and expertise of another agency with a housing mission, such as HUD, by making it a joint program administrator with responsibility for program oversight could enhance the LIHTC program's effectiveness. However, placing program oversight under HUD may require additional staff and other resources.

---

[18]GAO-12-300. Other GAO work also has described the importance of using information about program costs to inform oversight and potential program changes. See GAO, *Low-Income Housing Tax Credit: Improved Data and Oversight Would Strengthen Cost Assessment and Fraud Risk Management*, GAO-18-637 (Washington, D.C.: Sept. 18, 2018); and *Federal Housing Assistance: Comparing the Characteristics and Costs of Housing Programs*, GAO-02-76 (Washington, D.C.: Jan. 31, 2002).

[19]GAO-18-637. In this report, GAO suggests that Congress consider designating an agency to regularly collect and maintain cost data and report on project development costs and recommends that IRS collaborate with program stakeholders on the development of more standardized program cost data to aid program evaluations. As of September 2020, the matter and recommendation remain open.

[20]GAO-12-300; and GAO, *Rental Housing: Improvements Needed to Better Monitor Moving to Work Demonstration, Including Effects on Tenants*, GAO-18-150 (Washington, D.C.: Jan. 25, 2018). Our 2018 report contains 11 recommendations, several of which are designed to improved data collection and program evaluation. As of September 2020, all 11 recommendations remain open.

[21]GAO, *Low-Income Housing Tax Credit: Joint IRS-HUD Administration Could Help Address Weaknesses in Oversight*, GAO-15-330 (Washington, D.C.: July 15, 2015). In this report, GAO suggests that Congress consider designating HUD as a joint administrator of the LIHTC program to improve program administration and oversight. As of September 2020, this matter remains open.

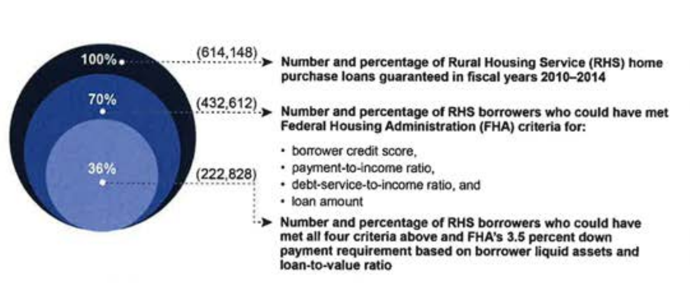
Figure 1: Housing Activities and Programs, by Purpose and Agency, fiscal year 2010

Primary purpose of activity	Number of activities/programs	HUD	Treasury/IRS	USDA	Federal Home Loan Banks	VA	Regulators	Neighborhood Reinvestment Corporation	FFIEC	CFPB	Farm Credit System	Fannie Mae	Freddie Mac	Farmer Mac	Interior	Labor	FHFA	Farm Credit Administration
Assistance for buying, selling, or financing a home	39	●	●	●		●												
Supports housing and other activities	30	●	●	●	●			●										
Assistance for financing rental housing	25	●	●	●	●													
Emergency assistance to housing market or current homeowner	16	●	●				●											
Regulatory requirements	10	●					●		●	●								
Increase availability of mortgage loans	9	●	●		●						●	●	●	●				
Assistance for homeowners	9		●	●		●									●			
Assistance for rental property owners	8	●	●	●														
Rental assistance for tenants	6	●		●												●		
Operation/management of rental housing	6	●		●														
Regulator of government-sponsored enterprises	2																●	●

Source: GAO analysis of agency documentation.

Note: GAO identified 20 federal agencies or entities, including the 16 entities listed separately in this figure and the four financial regulators (the Board of Governors of the Federal Reserve System, Federal Deposit Insurance Corporation, National Credit Union Administration, and Office of the Comptroller of the Currency) grouped together under the column heading "regulators."

Figure 2: Estimated Number and Percentage of RHS Borrowers Who Could Have Met Key Criteria for FHA-Guaranteed Home Purchase Loans, fiscal years 2010–2014



Source: GAO analysis of RHS and FHA data.

Note: The analysis focuses on 30-year, fixed-rate loans guaranteed by RHS (excluding loans for units in condominium and cooperative developments).

Chairman ENZI. Thank you for your testimony. Dr. Olsen, your comments?

STATEMENT OF EDGAR OLSEN, PhD., PROFESSOR OF ECONOMICS AND PUBLIC POLICY, UNIVERSITY OF VIRGINIA

Mr. OLSEN. I am delighted to be here today to share with you and the members of your Committee what I know about the performance of low-income housing programs, and some ideas about how to get better outcomes from the money spent on them.

Low-income housing assistance is fertile ground for reforms that would provide better outcomes for the money spent. Most current recipients are served by programs whose cost is enormously excessive for the housing provided. Phasing out these programs in favor of the system's most cost-effective program would ultimately free up the resources to provide housing assistance to millions of additional people, without any increase in taxes.

The second major defect of the current system is its failure to offer housing assistance to most of the poorest people. About two-thirds of families with extremely low incomes receive no housing assistance, while others with the same incomes receive large subsidies. Offering modest assistance to all of these families would not only eliminate this inequity but it would also largely end homelessness and evictions.

The path to remedying these defects at a reasonable cost to taxpayers is to phase out cost-ineffective programs in favor of the cost-effective housing voucher program. This would enormously simplify the system of low-income housing assistance.

In papers for American Enterprise Institute (AEI) and Brookings, I have suggested steps that would provide a smooth transition to a system that would offer housing assistance to all the poorest households. They deal with all parts of the current system: active construction programs, existing privately owned housing projects, public housing, and the housing voucher program itself.

The desirability of the proposed reforms does not depend on how much is spent on low-income housing assistance. If more money is spent, more families will be helped, and the families assisted will receive larger benefits.

Today most low-income housing assistance in the U.S. is delivered by subsidizing the construction, renovation, and operation of housing projects. The Low-Income Housing Tax Credit Program is the largest and fastest growing program of this type.

Tax credit projects have a much greater cost than most people realize. They receive subsidies from many sources. Considerable resources are devoted to getting these subsidies and trying to enforce their restrictions. And the layering of subsidies from multiple sources enables the building of very expensive units. The development costs of units in tax credit projects is about equal to the median value of owner-occupied houses in the same locality.

This complexity is totally unnecessary to achieve the purposes of low-income housing assistance, and it is one reason for the program's excessive cost. The simplest approach to providing housing assistance is to provide a subsidy to the people we want to help, that is conditional on occupying housing meeting certain standards. HUD's Housing Choice Voucher Program does that. This simple method can be used to subsidize homeowners as well as renters, and it can be combined easily with down payment assistance to induce more recipients to be homeowners.

This is not only the simplest approach but also by far the most cost-effective. We do not need to build subsidized housing projects to solve a housing affordability problem. All people who spend a high fraction of their income on housing are housed. The least expensive way to reduce how much they spend on housing is to pay a part of their rent. A housing voucher program does that. Building new housing for these households and charging them the same rents as they would pay under the housing voucher program is much more expensive.

Furthermore, it is neither necessary nor desirable to construct new units to house the homeless. The number of people who are homeless is far less than the number of vacant rental units. In the entire country there are only about 600,000 homeless people on a single night, and more than 3 million vacant units available for rent. Even if all homeless people were single, they could be easily accommodated in vacant existing units, and that would be much less expensive than building new units for them. The reason they are homeless is they do not have the money to pay the rent for an existing vacant unit.

A modest housing voucher would solve that problem. It would also prevent evictions for financial reasons. If a voucher recipient loses income, the subsidy is increased to offset the loss.

I look forward to your questions about these important issues.

[The prepared statement of Mr. Olsen follows:]

PREPARED STATEMENT OF MR. EDGAR OLSEN

Statement before the Senate Committee on the Budget
Roundtable on Examining Federal Housing Assistance Programs

The Cost of Complexity in Low-Income Housing Assistance

Ed Olsen
Professor Emeritus of Economics
University of Virginia
Visiting Scholar
American Enterprise Institute

September 16, 2020

*This testimony reflects the views of its author. It does not represent the official position of the University of Virginia or the American Enterprise Institute. Neither has an official position on low-income housing policy.

The Cost of Complexity in Low-Income Housing Assistance

Introduction

Low-income housing assistance is fertile ground for reforms that would provide better outcomes for the money spent. Most current recipients are served by programs whose cost is enormously excessive for the housing provided. Phasing out these programs in favor of the system's most cost-effective program would ultimately free up the resources to provide housing assistance to millions of additional people without any increase in taxes (Olsen 2014).

The current system of low-income housing assistance also provides enormous subsidies to some people while offering none to others who are equally poor, and it provides subsidies to many people who are not poor while offering none to many of the poorest. Avoiding these excessive subsidies and focusing assistance on the poorest families will contribute further to poverty alleviation (Olsen 2017).

Well-designed reforms of the current system of low-income housing assistance would not only alleviate poverty but also largely eliminate homelessness and evictions. These reforms would greatly simplify the system of low-income housing assistance by gradually replacing the current hodgepodge of programs with a simple program that offers housing assistance to all the poorest people.

Today most low-income housing assistance in the U.S. is delivered by subsidizing the construction, renovation, and operation of housing projects. The Low-Income Housing Tax Credit (LIHTC) is the largest and fastest growing program of this type. Since 1987, it has subsidized the construction of about 1.8 million units and the renovation of about 1.2 million. Over the program's history, more than $200 billion in tax credits have been allocated, but its total cost to taxpayers has been much greater because tax credit projects receive subsidies from many other sources.

This complexity is totally unnecessary to achieve the purposes of low-income housing assistance, and it is one reason for the program's excessive cost. Considerable resources are devoted to obtaining these subsidies and trying to enforce the restrictions associated with them, and the layering of subsidies from multiple sources leads to the building of expensive units. The per-unit development cost of LIHTC projects is about equal the median value of owner-occupied units in the same locality.

The simplest approach to providing housing assistance is to provide a subsidy to the people we want to help that is conditional on occupying housing meeting certain standards. HUD's Housing Choice Voucher Program does that. This simple method can be used to subsidize homeowners as well as renters, and it can be combined easily with down-payment assistance to induce more recipients to be homeowners.

This is not only the simplest approach but also by far the most cost-effective (Olsen 2008, pp. 9-15). We do not need to build subsidized housing projects to solve a housing affordability problem. All people who spend a high fraction of their income on housing are housed. The least expensive way to reduce how much they spend on housing is to pay a part of their rent. The housing voucher program does that. Building new housing for these households and charging the same rent as they would pay under the voucher program is much more expensive.

Furthermore, it is neither necessary nor desirable to construct new units to house the homeless. The number of people who are homeless is far less than the number of vacant rental units—indeed, far less than the number of vacant units renting for less than the median. In the entire country, there are only about 600,000 homeless people on a single night and more than 3 million vacant units available for rent.[1] Even if all homeless people were single, they could easily be accommodated in vacant existing units, and that would be much less expensive than building new units for them. The reason that they are homeless is that they do not have the money to pay the rent for existing vacant units. With some outreach and search assistance to the most troubled, a housing voucher would solve that problem. It would also prevent evictions for financial reasons. Housing vouchers are effective in preventing evictions because the subsidy is adjusted for the recipient's income. If a voucher recipient loses income, the subsidy is increased.

The failure to offer housing assistance to many of the poorest households is one of the two major defects of the current system of low income housing assistance, and the path to remedying this defect at a reasonable cost to taxpayers is to phase out cost-ineffective programs in favor of the cost-effective housing voucher program. Olsen (2008, pp. 17-23; 2017, pp. 95-102) describes steps that would provide a smooth transition to a system that would offer housing assistance to all the poorest households.

In this written testimony, I document the complexity of the tax credit program, provide information about the nature, prevalence, and magnitudes of its many subsidies, compare the performance of the tax credit and housing voucher programs, analyze several common arguments for subsidizing the construction of housing projects, outline major reforms that would lead to an efficient and equitable program of housing assistance, and describe a modest proposal that would reduce homelessness and evictions without additional government spending.

Low-Income Housing Tax Credit Program

Under LIHTC, the federal government authorizes state housing agencies to allocate a specified amount of nonrefundable tax credits to selected developers to build or renovate housing projects for low- and moderate-income households. Some federal tax credits are awarded through a competitive process; others are automatically awarded to developers who are allocated state private activity bonds to help fund their projects. Because interest on these bonds is not subject to federal income taxation, they provide financing at a below-market interest rate.

The tax credit subsidies are substantial. For projects not funded with tax-exempt bonds, states can award tax credits whose present value can exceed 100% of the construction or rehabilitation cost in some cases. For projects funded with tax-exempt bonds, they can award tax credits whose present value is up to 39% of the construction or rehab cost.

Since tax credits are nonrefundable and developers rarely, if ever, have sufficient tax liabilities to use most of their tax credits, almost all are sold, mainly to large financial institutions with substantial tax liabilities and CRA requirements. Syndicators often play a role in arranging these transactions and protecting the interests of those who buy the tax credits.

In return for these subsidies, developers agree to provide housing meeting certain minimum standards for rents less than certain amounts to households with incomes less than certain limits for at least 30 years. For a four-person family, the limit is almost always 60% of area median income.[2] The limit is smaller for smaller families and larger for larger families. The

---

[1] https://files.hudexchange.info/resources/documents/2019-AHAR-Part-1.pdf, https://fred.stlouisfed.org/series/ERENTUSQ176N

[2] The four-person limit is based on the local median income for families of all sizes. The income limits for families of other sizes are obtained by multiplying the four-person limit by a nationally uniform constant. For example, this constant is 0.7 for a single person and 1.16 for a family of six. Developers may choose income limits based on 50% or 60% of the local median. If they choose 50%, they must commit at least 20% of their units to the tax credit program. If they choose 60%, they must commit at least 40% to the program. Since tax credit development is more profitable than unsubsidized development and the 60% option enables the developer to charge higher rents and

income limits for families of various sizes are converted to income limits for units with each number of bedrooms, and the rent ceilings are 30% of the relevant income limit. These rent ceilings are roughly local median rents. Unlike other major low-income housing programs, the tenant's rent does not depend on the tenant's income unless the project receives a subsidy from another program that requires it. Tenants without such a subsidy will pay more than 30% of their income in rent.

The number usually reported as the program's cost to taxpayers in a year is the competitive allocation for additional projects in that year. In 2016, this was about $7.8 billion. Total public expenditure on tax credit projects is much greater. The most obvious omission is noncompetitive tax credits that are associated with tax-exempt bond financing. In 2016, about $3.2 billion in noncompetitive credits were allocated. Therefore, accounting for noncompetitive tax credits alone increases the usually reported public subsidy more than 40%.

This simple description greatly understates LIHTC's complexity and the cost of delivering housing assistance in tax credit projects. Few tax credit projects receive only tax credit subsidies. NCSHA (2018, Table 8) lists 18 other federal sources that provide subsidies to some tax credit projects and an all-other category that includes a hodgepodge of smaller federal sources. In 2016, more than 91% of all tax credit units received subsidies from at least one of these sources. This list of subsidy sources does not include the tenant-based Housing Choice Voucher Program that provides subsidies on behalf of about 10% of all tenants. It also does not include ubiquitous subsidies from local and state governments. Based on data for projects approved in California between 2009 and 2016, 90% of projects have at least 2 other development funding sources beyond a conventional first mortgage and tax credits, two-thirds have at least 3, and more than a fifth have at least 5.

Assembling subsidies from many sources and attempting to enforce their restrictions has a substantial cost. This requires many talented workers doing jobs that are not necessary to deliver housing assistance efficiently. The result is that the development cost of a typical tax credit unit is about equal to the average market value of owner-occupied homes in the same locality.

The primary types of subsidies to developers beyond the tax credits themselves are rental assistance payments, subsidized loans, land at below-market prices, property tax abatements and exemptions, and state tax credits. I'll document their nature, prevalence, and magnitude to the extent possible.

Rental Assistance

The owners of many tax credit projects receive rental assistance each month on behalf of some or all tenants. Many projects have involved rehabilitation of older HUD- and USDA-subsidized projects, and these programs continue to provide subsidies on behalf of their tenants to the tax credit redevelopers. In addition, some new-construction projects have received project-based housing vouchers from public housing authorities to house families from the authority's voucher waiting list. Finally, about 10% of tax credit units are occupied by families with tenant-based Section 8 Housing Choice Vouchers. These tenants have chosen to use their vouchers in tax credit projects. Because the ceiling rent in the tax credit program applies to the tenant's rent, the sum of the tenant's rent and voucher subsidy can exceed the ceiling. Therefore, housing a family with a tenant-based voucher provides extra revenue to the owner without extra cost.

increases the number of households that can live in the project, almost all developers choose the 60% option and commit all of the units not occupied by a manager or other staff to the tax credit program.

Developers receive substantial rental assistance payments on behalf of these tenants. According to HUD's non-public-use LIHTC data set, owners of tax credit projects received rental assistance payments on behalf of about 42% of their tenants in 2015 and the mean payment on behalf of these households was $611 a month.[3] Therefore, the owners of tax credit projects received about $9.2 billion in rental assistance payments in 2015. This is roughly the magnitude of the tax credits claimed in that year.

Subsidized Loans

Almost all tax credit projects are developed with the help of subsidized loans. Many have multiple loans of this type. In most cases, the ultimate source of the subsidy is the federal treasury. However, many projects also have subsidized loans partially funded from local government tax revenue.

The largest federally funded programs that provide subsidized loans are the Treasury's multifamily housing bonds (MHB) and HUD's HOME intergovernmental housing block grant program. For new allocations in 2016, multifamily housing bonds funded a part of the development cost of tax credit projects that accounted for about 42% of all units (NCSHA 2018, Table 8). Because the interest on these private activity bonds is not taxable under the federal income tax, they pay lower interest rates and have a cost to the federal treasury. The HOME Program provided subsidized loans on behalf of about 13% of tax credit units. Many other federal programs such as USDA's Section 515 program provide subsidized loans in support of fewer units.

Local governments also provide loans to tax credit developers at below-market interest rates from their own resources. Because localities often raise the money to make these loans by issuing bonds and the interest on these bonds is exempt from federal taxes, a federal subsidy is involved. However, the subsidy goes beyond that. The loans are often residual or deferred loans. Residual loans are repaid each period only to the extent permitted by positive cash flow (that is, revenues greater than operating expenses and first mortgage debt service). If a project's cash flow is negative, no payments are made on its residual loans. If cash flow is positive, only some may be repaid. Deferred loans are loans that have no payments due for some years, at least thirty in most cases. The extent of the subsidy borne by local taxpayers depends on the extent to which these loans are repaid.

National data on the prevalence of residual and deferred loans is not publicly available. For tax credit projects approved in California between 2009 and 2016, they were common. About 39% of the projects had at least one residual loan and about 25% had at least two. About 22% had at least one deferred loan. About 43% of tax credit projects had at least one residual or deferred loan, about a third had two or more, and about a fifth had at least three.

In the California projects, residual loans were not only common but also substantial. Among the projects that had residual loans, the mean amount of these loans is about $5 million. The mean development cost of these projects was about $22 million. In total, residual and deferred loans paid for about 7% of the development cost of all projects approved in California during this period.

A key question is the extent to which residual and deferred loans are repaid. If they are not repaid at all, they are, in effect, grants. Although syndicators, developers, and others in the business know the extent to which their projects have repaid residual loans, this is not public information. In a major study based on the data of four large syndicators who accounted for

[3] Thanks to Mike Hollar in HUD's Office of Policy Development and Research for providing these numbers.

about a fourth of tax credit projects in the program's first ten years, Cummings and Di Pasquale (1999, p. 253) report that about 22% of the projects had negative cash flow and hence paid nothing on their residual loans. Presumably, other projects with small cash flow had too little to pay the entire amount due. Little information about the repayment of deferred loans is available because few have become due. They are almost always for at least 30 years, and the program has existed for only 33 years.

Cummings and Di Pasquale made a conservative estimate of the dollar amount of the subsidy associated with all loans at below-market interest rates based on the assumption that the market interest on these loans would be the interest rate on thirty-year constant maturity Treasury bonds. Because the risk of default on these bonds is negligible, this interest rate clearly understates the market rate on the subsidized loans that funded the development of tax credit projects, especially residual and deferred loans. Cummings and Di Pasquale concluded that grants and loans at below-market interest rates provided subsidies equal to at least 50% of the tax credits. If Cummings and DiPasquale's result applied to the current situation, these subsidies would add at least $5.5 billion to total public expenditure on tax credit projects.

When the noncompetitive tax credits, rental assistance, and government loans at below-market interest rates are added to the usually cited competitive tax credits, the total annual subsidy exceeds $25 billion. But this is not the end of the story. Local governments and public housing authorities provide substantial additional subsidies in the form of land at below-market prices and local property tax abatements, and some states supplement federal with state tax credits. Although national data on the extent and magnitudes of these subsidies are not available, I will provide some fragmentary information.

Land at Below-Market Prices

Some tax credit projects are built on land gotten from a local government or public housing authority for a nominal amount. A recent GAO report on tax credit development cost in ten states and two large cities revealed that the median land cost for the 157 LIHTC projects undertaken in New York City over the period of their study was $1 (GAO, 2018, Table 4, p. 86). About 10% of the projects approved in California between 2009 and 2016 bought or leased their land from a local government and a similar percentage bought or leased it from a public housing authority. In about 8% of all projects, the price was clearly well below market, usually $1 or $1 per year.

The GAO report and the California data do not indicate the market value of this land. However, in the California data, the median value of the land and its existing structures (if any) that was not sold or leased for a nominal amount was about $3.8 million and the median value of land without existing structures was about $1.9 million. The means were even greater -- $7.3 million and $2.9 million. Therefore, even if the prices charged by local governments and housing authorities were more than nominal, say $100,000, they could still involve substantial subsidies.

In some cases, local governments and public housing authorities might sell or lease land at a market price but deliver a subsidy by providing a residual loan that is not repaid to any significant extent. Giving a developer land for free or a nominal amount would raise a fuss in some places. A residual loan is less likely to raise objections, and the failure to pay debt service on the loan is unlikely to be noticed by the public.

Tax abatements and exemptions

Some, possibly many, tax credit projects receive property tax abatements. The results of the annual National Apartment Association (NAA) survey of operating income and expenses suggest the magnitude of this subsidy.[4] In unsubsidized projects, the annual tax payment in 2017 was $1,741 per unit. In subsidized projects, it was $881 per unit. Most privately owned subsidized projects are tax credit projects. Although the difference in property taxes could simply reflect differences in the desirability of the units and hence their market values, the units were of about the same average size (931 and 899 sq. ft.) and had about the same overall operating expenses ($5,369 and $5,375). A report by Enterprise Community Partners about their substantial portfolio of tax credit units indicates annual property taxes of $359 per unit in 2015.[5] In California, all tax credit projects with a not-for-profit sponsor are exempt from local property taxes. Not surprisingly, virtually all for-profit developers find a not-for-profit organization to cosponsor their developments.

State tax credits
Finally, eighteen states provide low-income housing tax credits that must or can be combined with federal tax credits (NCSHA 2018, Table 16). In California, about 14% of all projects with federal tax credits also receive state credits. These credits are substantial for the projects that get them – a third as large as their federal credits.

LIHTC's Per-Unit Development Cost
A wide variety of sources provide subsidies to tax credit projects, and almost all projects receive subsidies from multiple sources. The layering of subsidies from multiple sources enables the building of expensive units.

To put the development cost of tax credit projects into perspective, Table 1 compares the per-unit development cost of tax credit projects in ten representative states from a recent GAO study with the median value of owner-occupied units in these states for the same time period. These numbers somewhat understate the true development cost of the tax credit projects because some projects are built on land bought or leased at a below-market price from a local government or public housing authority. The simple average of the development costs across the ten states was slightly less than $200,000 per unit. The simple average of the median value of owner-occupied units across the ten states was about $214,000.

To get results at a lower level of geography, I compared the per-unit development cost of the 47 projects featured in a journal called Affordable Housing Finance from October 2017 through March 2018 with the median value of owner-occupied units in the same locality. Their means were virtually identical -- $293,000 v. $290,000.

Revelations in the popular press about the enormous per-unit development cost of some LIHTC projects has led to congressional concern about this matter. For example, a segment on the PBS News Hour in 2013 revealed that about $500,000 per apartment had been spent to build a housing project for the homeless in San Francisco. While not the norm, extremely large amounts are not uncommon. About a third of the projects approved in California between 2009 and 2016 had development costs in excess of $400,000 per unit, 13% had development costs greater than $600,000 per unit, and 3% had development costs over $1,000,000 per unit. Housing is expensive in California. The median value of owner-occupied units there was about $385,000 in 2015 compared with a national median of $196,600. But these development costs are high even by its standards.

---

[4] https://www.naahq.org/sites/default/files/naa-documents/about-membership/ies_executive_summary_2017.pdf
[5] https://www.enterprisecommunity.org/sites/default/files/media-library/financing-and-development/asset-management/2016-portfolio-trends-report-final.pdf

I conclude that we are spending enough on LIHTC developments to provide occupants of tax credit units with housing as good as the housing occupied by the average homeowner. Since the income of the average homeowner exceeds the average income of all households by more than 20%, this raises the obvious question as to whether we should spend this much on the housing of some low- and moderate-income households when we are failing to offer any housing assistance to three fourths of the poorest households.

Simpler Is Better

HUD's Housing Choice Voucher Program is much simpler than LIHTC. When an eligible family reaches the top of the voucher waiting list, it is told what subsidy it will receive to help pay for its housing and invited to search for a unit that meets the program's housing standards and whose landlord is willing to participate in it. In many cases, the family's current unit meets the standards, its landlord is willing to participate, the tenant stays in the unit at least for a while, and the program pays a part of the rent. In other cases, the tenant must find another unit in order to participate or chooses to do it to occupy a better unit immediately.

The voucher program is not only simpler than LIHTC, but its performance is better. For starters, the voucher program is much better targeted on the poorest households. Only 44% of the households in LIHTC projects have extremely low incomes compared with about 73% in the voucher program. [6] Most households with extremely low incomes in tax credit projects receive deep subsidies from HUD programs.

The voucher program is also by far the most cost-effective low-income housing program. We have excellent evidence on its cost-effectiveness compared with older programs that subsidized the building and operation of housing projects. The best study of HUD's largest program that subsidized the construction of privately owned projects indicated the total cost of providing housing under this program was at least 44 percent greater than the total cost of providing equally good housing under the housing voucher program (Wallace and others 1981). This translated into an excess taxpayer cost of at least 72 percent for the same outcome. The best study of HUD's second largest program of this type produced similar results (Mayo and others 1980). Public housing has even larger excess cost (Mayo and others 1980).

Despite the enormous public expenditure over its history, we don't have a cost-effectiveness study of this quality for the tax credit program. A 2001 GAO study indicated that tax credit projects that involved the building of new units cost 16% more than housing vouchers to provide units with the same number of bedrooms in the same metro area. This is clearly an underestimate of the cost difference because it omitted some of the subsidies to developers of tax credit projects, namely, rental assistance payments from the Housing Choice Voucher Program, land from local governments at below-market prices, and local property tax abatements, and it is based on a conservative estimate of the subsidy associated with loans at below-market interest rates to tax credit developers (especially soft loans). The programs are equally effective in the sense that they provide housing meeting certain minimum standards, but unlike the studies of older programs, the GAO study did not consider whether tax credit units are better or worse than voucher units over the 30 years of the use agreement.

One consequence of LIHTC's excess cost is that occupants of tax credit projects capture

[6] About 16% of households have extremely low incomes on HUD's definition. For 4-person households, they are households with incomes less than 30% of the local median. Nationally uniform adjustments are used to get income limits for larger and smaller households. The results reported are for 2017 from HUD (2019, Table 9) and HUD's Picture of Subsidized Households https://www.huduser.gov/portal/datasets/assthsg.html.

a small fraction of the subsidies provided to developers on their behalf. Combining evidence from Greg Burge's 2011 study of LIHTC projects in Tallahassee with evidence from Cummings and DiPasquale's study of the importance of grants and loans at below-market interest rates leads to the conclusion that the present value of the rent saving to tenants (the difference between the market rent of the unit and the rent paid by its tenant) is less than 37% of the present value of the subsidies to tax credit developers. In contrast, the best studies indicate that market rents are paid for voucher units and hence voucher recipients capture all the subsidy paid to the landlord (Olsen 2019). The tenant's rent is below the market rent by the amount of the subsidy.

What accounts for the large differences in the total cost of providing equally good housing under programs of tenant-based and project-based assistance? Although evidence about the relative importance of various factors does not exist and the relative importance will differ for different programs, the plausible explanations are the absence of a financial incentive for good decisions on the part of civil servants who operate public housing, the excessive profits that inevitably result from allocating subsidies to selected developers of private subsidized projects, the resources that developers devote to securing the subsidies, and the distortions in usage of inputs resulting from the subsidy formulas. A special case of the latter is that project-based assistance is usually tied to the construction of new units. The least expensive approach to improving the housing conditions of low-income households involves heavy reliance on upgrading the existing housing stock, the primary mechanism through which tenant-based assistance achieves this goal.

A PBS Frontline documentary called Poverty, Politics, and Profit reveals another reason for LIHTC's excess cost, namely, fraud.[7] A follow-up piece with NPR, Department of Justice news releases, and articles in the Miami Herald provide more details.[8] One investigation of several developers revealed excess subsidies of $36 million for 14 projects.[9] Because subsidies are proportional to development cost, developers have an incentive to overstate them. In the fraud uncovered in this investigation, the developer who was awarded tax credits persuaded contractors to provide inflated invoices for their work on the projects combined with kickbacks to the developers. Due to the difficulty of determining true development cost, this unscrupulous developer succeeded in greatly overstating them. To give a sense of the magnitudes involved, the PBS documentary indicated that the developer of one project overstated its development cost by about 17%. Recent investigations have uncovered similar fraud in Los Angeles, New York City, Dallas, and Maine, and other investigations are underway.[10] Because the fraud involved is difficult to detect, the few cases uncovered so far are surely the tip of the iceberg. More than 40,000 projects have been built.

The results concerning the cost-effectiveness of different housing programs illustrate the

[7] https://www.pbs.org/video/poverty-politics-and-profit-bhkmpo/

[8] https://www.npr.org/2017/05/09/527046451/affordable-housing-program-costs-more-shelters-less, https://www.justice.gov/usao-sdfl/pr/seven-defendants-sentenced-federally-their-role-36-million-fraud-scheme-involving-low, https://www.miamiherald.com/news/local/community/miami-dade/article29949909.html

[9] https://www.justice.gov/usao-sdfl/pr/seven-defendants-sentenced-federally-their-role-36-million-fraud-scheme-involving-low

[10] https://www.latimes.com/local/lanow/la-me-ln-housing-indictment-20160205-story.html, https://www.justice.gov/usao-edny/pr/real-estate-developer-sentenced-6-months-imprisonment-soliciting-300000-kickbacks-nyc, https://www.justice.gov/archive/usao/txn/PressRel10/DCC_potashnik_brian_cheryl_sen_pr.html, https://www.pressherald.com/2016/04/14/maine-man-admits-embezzling-80000-in-low-income-housing-funds/#goog_rewarded, https://www.bizjournals.com/southflorida/news/2017/06/16/federal-investigation-widens-into-affordable.html

virtue of forcing sellers to compete for the business of buyers. Under a program of tenant-based assistance, suppliers cannot charge much more than market rents for their units for long because the tenant could move to a better unit without paying more for it. The subsidy is portable. Under programs of project-based assistance, suppliers who receive payments greater than market rents for their housing can remain in the program indefinitely because their tenants would lose their subsidies if they moved. These suppliers have a captive audience.

A simple example illustrates these general points. Suppose that the housing voucher program agreed to pay $1,200 a month for a unit that would rent for only $800 in the unsubsidized market. Suppose that the voucher recipient paid a rent of $400 a month based on its household income. The government pays the difference -- $800 a month. Units that have a market rent of $1,200 a month are much more desirable than units with a market rent of $800 a month in the same locality. Therefore, this voucher recipient would benefit substantially from moving to a unit with a market rent of $1,200 a month. Under the housing voucher program, they could make this move without any change in their rent. Before the move, the rent saving to the tenant $400 (=$800-$400) is only half of the government subsidy. After the move, the rent saving to the tenant $800 (=$1200-$400) is equal to the government subsidy. The tenant captures all the subsidy. In the same initial situation, the occupant of a subsidized housing project would not have any incentive to move. Suppose that the tenant's rent in the subsidized project is $400 a month, the government provides the owner with a subsidy of $800 a month, and the owner provides a housing unit that would rent on the unsubsidized market for only $800 a month. As before, the rent saving to the tenant $400 (=$800-$400) is only half of the government subsidy. However, the rent saving is substantial, and the tenant would lose it if he or she moved. This tenant would stay put, and the owner could capture half of the subsidy in perpetuity.

Arguments for Subsidizing the Construction of Housing Projects

Although cost-effectiveness and recipient choice make a strong case for exclusive reliance on tenant-based assistance, some argue for subsidizing the construction of housing projects. I'll address the most common arguments.

Some argue that we must subsidize the construction of housing projects to deal with a shortage of affordable housing. This ignores the simple truth that existing units can be made affordable to their occupants by paying a part of the rent, and this is much less expensive than building new units and charging the tenants the same rents that they would pay in their existing units.

Others argue that we need to subsidize the construction of housing projects to deal with an overall shortage of housing (that is, a low vacancy rate). This fails to appreciate how suppliers in unsubsidized housing markets respond to low vacancy rates. When vacancy rates are unusually low, rents will be unusually high. This is when unsubsidized construction will be most profitable, and as a result, the construction of new units will accelerate. This will lead to a higher vacancy rate and a lower rate of increase in rents. The unsubsidized market is a self-correcting mechanism in this regard. In the unsubsidized market, new units will rarely be built for low-income households. However, when middle income families move into new units, the existing units vacated by these families will become available to lower income households (Rosenthal 2014). We don't need subsidized construction to deal with low vacancy rates.

Some people seem to believe that each unit built under a subsidized construction program adds one unit to the housing stock. This is far from the truth. The credible evidence about LIHTC indicates almost complete crowd out. The best of these studies is Eriksen and Rosenthal's 2010 paper. Their conclusion is that nearly 100% of LIHTC development is offset by a reduction in the number of newly built unsubsidized rental units. More units are built in some locations and fewer in others. However, the net increase in the housing stock is minimal. Malpezzi and Vandell (2002) and Baum-Snow and Marion (2007) have produced similar results, albeit not as precisely estimated.

These results undercut a common argument for subsidized construction programs, namely, that the programs increase employment. The evidence offered in support of this argument is simply the number of workers involved in building and renovating projects. The preceding evidence indicates that in the absence of LIHTC these workers would have been involved in building or renovating unsubsidized units.

Another common belief is that tenant-based housing vouchers have no effect on the number of dwelling units in existence or a much smaller effect than subsidized construction programs. The only available evidence indicates the opposite (Sinai and Waldfogel 2005). This surprising result has a plausible explanation. When people who are doubled up are offered housing assistance of any sort, they move into their own unit. The poorest people are doubled up to a greater extent than people with somewhat higher incomes. The housing voucher program serves the poorest people to a greater extent than the aggregate of all subsidized construction programs studied and especially LIHTC (O'Regan and Horn 2013, Table 2).

Advocates for subsidizing the construction of housing projects often concede that housing vouchers will work well in markets with high vacancy rates but argue that we need to subsidize the construction of housing projects in order to serve low-income households in markets with low vacancy rates. On this argument, the construction of tax credit projects should be concentrated in areas with low vacancy rates.

Table 2 indicates that this is not the reality of the tax credit program. The table is based on annual data on the number of tax credit units placed in service and the rental vacancy rate in the 75 largest metro areas over ten years. It shows the number of tax units placed in service in each range of vacancy rates and the number of these units relative to the number of occupied rental units in the metro area. On average, tax credit units placed in service were about a fourth of a percent of the occupied rental stock each year. Importantly, this percentage was about the same in the tightest and loosest markets. Over the decade, most tax credit units were built in metro areas with vacancy rates in excess of 8%. Almost 40% were built in metro areas with vacancy rates in excess of 10%. To put these numbers in perspective, the mean rental vacancy rate in the U.S. over the past 60 years has been 7.4%.

Finally, many argue that tenant-based assistance will not work well in markets with the lowest vacancy rates because these markets do not have enough affordable vacant apartments that meet minimum housing standards to house all families who are offered vouchers. In fact, it is not necessary for the number of vacant apartments that meet minimum housing standards and are affordable to voucher recipients to exceed the number of new and recycled vouchers available in order to use all vouchers available. Many families offered vouchers already occupy apartments meeting the program's standards. We do not need vacant apartments for these families. They can participate without moving. Other families who are offered vouchers live in housing that does not meet Section 8 standards. However, these apartments can be repaired to meet the standards. Similarly, vacant apartments that do not initially meet the program's standards can be upgraded to meet them. About half of the units in the voucher program were improved by their landlords to meet the program's minimum standards. In short, a tenant-based voucher program leads to an increase in the supply of apartments meeting minimum housing standards. Olsen (2008, pp. 31-33) summarizes the evidence about these matters.

In short, none of the arguments for subsidizing the construction of housing projects withstands scrutiny.

Fundamental Reform

If Congress wants to serve the interests of low-income families and the taxpayers who want to help them, it should shift the budget for low-income housing assistance from project-based to tenant-based housing assistance as soon as current contractual commitments permit and should not authorize additional spending on the construction of housing projects. This would increase the cost-effectiveness of the system, and replacing the current system of low-income housing assistance with a tenure-neutral housing voucher program that offers the same assistance to all eligible families in the same circumstances would eliminate its inequities and bias against homeownership. It would also largely eliminate homelessness and evictions.

In a paper for the Brookings Institution's Hamilton Project, I have described specific reforms of the current system that would gradually lead to this outcome (Olsen 2008, pp. 17-23). They deal with all parts of the system – active construction programs, existing privately owned housing projects, public housing, and the housing voucher program. These reforms would not hurt current recipients. Indeed, they are designed to benefit many of them. For example, public housing tenants would be offered a choice between housing vouchers and staying in their current units on the same terms. Current recipients of Section 8 vouchers could be allowed to receive the generous subsidies that are now offered by the program while new recipients receive less generous subsidies so that more households can be served. The proposed reforms honor legal commitments. For example, payments on current terms will be provided to owners of private subsidized projects until the end of their use agreements. After the transition is complete, millions of additional families would receive housing assistance that enables them to occupy better housing in nicer neighborhoods and have more to spend on other goods. Millions of other families that would have received project-based assistance with the continuation of the current system would live in housing and neighborhoods that they prefer to their units in subsidized projects.

To illustrate the magnitude of the gains that would ultimately flow from the reforms and allay concerns about their effects on various subgroups, I have estimated the effects on the number of families served of phasing out the bulk of HUD's programs in favor of alternative housing voucher programs that offer assistance to all of the poorest households (Olsen 2014). Most have about the same taxpayer cost as the current programs, but one spends about 10 percent less. The results of the analysis are striking. They indicate that even the reformed program that reduces public expenditure by more than 10 percent would serve 75 percent more people in total and many more in families of each type – white, black, and Hispanic; elderly and nonelderly; families living in metropolitan and nonmetropolitan areas; small, medium, and large families; and families in the first two real income deciles. The most underserved types experience the largest increases.

A Modest Proposal

Fundamental reforms of the current system of low-income housing assistance to serve the interests of the poorest members of the community and the taxpayers who want to help them with their housing will be politically challenging because many people have a vested interest in the continuation and expansion of the current system. State housing agencies are thrilled to receive substantial tax credits each year to distribute at their discretion to selected developers. HUD and USDA are delighted to have money that isn't in their budget used to fund renovation of their housing projects. The people who own and manage these old subsidized projects are elated to be able to offer better units that need less maintenance. This reduces their cost and leads to fewer tenant complaints. LIHTC's continuation and expansion benefit the developers, syndicators, lawyers, accountants, market analysts, and others who have devoted the time to master its complexities. Developers earn higher profits than in unsubsidized construction, and others are well paid for their expertise. Given the program's complexity, it makes financial sense for the developer to use these specialized resources. However, the complexities themselves lead to greatly excessive cost for the housing provided. Equally good housing could be provided to the tenants of tax credit projects at a much lower total cost (that is, cost to tenants and governments) using housing vouchers. This would enable us to serve many additional people with the same expenditure.

Given the daunting political obstacles to more fundamental reform, I'll suggest a modest reform of the housing voucher program that will reduce homelessness and evictions without greater public spending. HUD's Housing Choice Voucher Program provides very large subsidies to its recipients while offering nothing to other families in similar economic circumstances. Providing smaller subsidies to more households would almost surely reduce homelessness and evictions.

In 2019, the national mean voucher subsidy for a household with one adult, two children, and no countable income was almost $1,200 a month. In expensive places, it is much higher – about $2,000 a month in New York City and Los Angeles. Current voucher subsidies enable their recipients to occupy rental units of about average desirability without devoting more than 30% of their income to their housing. Subsidies of this magnitude are not necessary to prevent homelessness and evictions. It is possible to occupy and retain more modest units with smaller subsidies.

Homelessness and evictions can be reduced without spending more money or harming current voucher recipients by offering new recipients less generous subsidies, authorizing enough additional vouchers so that the same amount is spent on the program, and allowing current recipients to retain their current subsidies until they leave the program. Because a significant number of voucher recipients exit the program each year (about 10%), this initiative will allow many more families to be served each year without spending more money. Eventually, all participants in the same economic circumstances would receive the same lower subsidy, but many more households would be served.

Although some question it, there is little doubt that less generous vouchers could be used. At current subsidy levels, many more people want to participate than can be served with the existing budget. Waiting lists are long and usually closed to new applicants. When they are briefly opened for new applications, riots to get on them have occurred. A modest reduction in their generosity would not eliminate the excess demand. Reducing the voucher subsidy by the same amount for households at all income levels would make families currently eligible for subsidies less than this amount ineligible for voucher assistance. These are the currently eligible households with the largest incomes. This would free up money to provide vouchers to needier households that would not have been served by the current system.

Vouchers much less generous that regular Section 8 vouchers have been used throughout the country to provide time-limited housing assistance to the homeless. In HUD's Family

Options Study, the average monthly cost of community-based rapid rehousing (CBRR) vouchers was $880 ($634 for the housing and $246 for search assistance). The average monthly cost of regular Section 8 vouchers was $1,172 (all for the housing). Therefore, the CBRR vouchers in the study provided housing vouchers about half as expensive as regular Section 8 vouchers and had an overall cost about 25% less (Gubits and others 2016, p. 111).

Although the Family Options Study did not test this option, it is reasonable to believe that offering modest housing vouchers without time limits to all the poorest people would largely eliminate homelessness and evictions. It would provide the biggest bang for the buck in this regard.

Conclusion

It is easy to understand why people and organizations involved in the development and operation of tax credit projects support it. However, if we want to offer housing assistance to all of the poorest households at a reasonable cost and thereby end homelessness and evictions, we must use an approach that is better targeted on the poorest and delivers much more housing for the money. The housing voucher program is that approach. As long as we continue to fund the construction of expensive housing projects rather than expand the housing voucher program, the majority of the poorest households will not receive any housing assistance. Instead they will cycle through evictions, temporary sharing of crowded housing, and homelessness.

References

Baum-Snow, Nathaniel and Justin Marion. 2009. "The Effects of Low Income Housing Tax Credit Developments on Neighborhoods." *Journal of Public Economics* 93 (5-6): 654-666.

Burge, Gregory S. 2011. "Do Tenants Capture the Benefits from the Low-Income Housing Tax Credit Programs?" *Real Estate Economics* 39(1): 71-96.

Cummings, Jean L., and Denise DiPasquale. 1999. "The Low-Income Housing Tax Credit: An Analysis of the First Ten Years." *Housing Policy Debate* 10: 251–307.

Eriksen, Michael D. and Stuart S. Rosenthal. 2010. "Crowd out Effects of Place-Based Subsidized Rental Housing: New Evidence from the LIHTC Program." *Journal of Public Economics* 94 (11-12): 953-966.

Gubits, D., M. Shinn, M. Wood, S. Bell, S. Dastrup, C.D. Solari, S.R. Brown, D. McInnis, T. McCall, U. Kattel. 2016. *Family Options Study: 3-Year Impacts of Housing and Services Interventions for Homeless Families.* Washington: D.C.: U.S. Department of Housing and Urban Development. https://www.huduser.gov/portal/sites/default/files/pdf/Family-Options-Study-Full-Report.pdf

Malpezzi, Stephen and Kerry Vandell. 2002. "Does the Low-Income Housing Tax Credit Increase the Supply of Housing?" *Journal of Housing Economics* 11(4): 360-380.

Mayo, Stephen K., Shirley Mansfield, David Warner, and Richard Zwetchkenbaum. 1980. *Housing Allowances and Other Rental Assistance Programs-A Comparison Based on the Housing Allowance Demand Experiment, Part 2: Costs and Efficiency*. Cambridge, MA: Abt Associates Inc. https://virginia.app.box.com/s/y9l5b19wnfxay0v167tr3xuzrpdwz77d

National Council of State Housing Agencies (NCSHA). 2018. *State HFA Factbook: 2016 NCSHA Annual Survey Results*. Washington, D.C.: NCSHA.

Olsen, Edgar O. 2008. "Getting More from Low-Income Housing Assistance," The Brookings Institution, Hamilton Project, Discussion Paper 2008-13.
https://www.hamiltonproject.org/papers/getting_more_from_low-income_housing_assistance

———. 2014. "The Effect of Fundamental Housing Policy Reforms on Program Participation," University of Virginia, January 14, 2014, http://eoolsen.weebly.com/uploads/7/7/9/6/7796901/ehpfinaldraftjanuary2014coverabstracttextreferencetablesonlineappendices.pdf.

———. 2017. "Reducing Poverty by Reforming Housing Policy" in Robert Doar (ed.), *A Safety Net That Works: Improving Federal Programs for Low-Income Americans*. Washington, D.C.: AEI Press. https://www.aei.org/wp-content/uploads/2017/02/A-Safety-Net-That-Works.pdf

———. 2019. "Does HUD Overpay for Voucher Units, and Will SAFMRs Reduce the Overpayment? *Cityscape* 21(3): 89-102.

O'Regan, Katherine M. and Keren Horn. 2013. "What Can We Learn about the Low-Income Housing Tax Credit Program by Looking at the Tenants?" *Housing Policy Debate* 23(3): 597-613.

Rosenthal, Stuart S. 2014. "Are Private Markets and Filtering a Viable Source of Low-Income

Housing? Estimates from a 'Repeat Income' Model." *American Economic Review* 104(2): 687-706.

Sinai, Todd and Joel Waldfogel. 2005. "Do Low-Income Housing Subsidies Increase the Occupied Housing Stock?" *Journal of Public Economics* 89 (11-12): 2137-2164.

U.S. Department of Housing and Urban Development (HUD), Office of Policy Development and Research. 2019. *Understanding Whom the LIHTC Serves: Data on Tenants in LIHTC Units as of December 31, 2017*. Washington D.C.: U.S. Department of Housing and Urban Development. https://www.huduser.gov/portal/sites/default/files/pdf/LIHTC-TenantReport-2017.pdf

U.S. General Accounting Office (GAO). 2001. *Federal Housing Programs: What They Cost and What They Provide*. GAO-01–901R. Washington, DC: GAO.

———. 2018. *Low-Income Housing Tax Credit: Improved Data and Oversight Would Strengthen Cost Assessment and Fraud Risk Management.* GAO-18-637. Washington, DC: GAO.

Wallace, James E., Susan Philipson Bloom, William L Holshouser, Shirley Mansfield, and Daniel H. Weinberg. 1981. *Participation and Benefits in the Urban Section 8 Program: New Construction and Existing Housing*, Vol. 1 & 2. Cambridge, MA: Abt Associates Inc. https://virginia.app.box.com/s/7w5zmypmh44ljg5z6jbja0qaod4pswax

Table 1

LIHTC Development Cost Per Unit versus Median Value of Owner-Occupied Units

State	LIHTC Development Cost Per Unit (dollars)	Median Value Owner-Occupied Units (dollars)	Ratio of Per-Unit Development Cost to Median House Value
Arizona	188,400	167,500	1.12
California	307,107	385,500	0.80
Florida	187,350	159,000	1.18
Georgia	141,126	148,100	0.95
Illinois	213,342	173,800	1.23
New York	264,018	283,400	0.93
Ohio	168,213	129,900	1.29
Pennsylvania	246,966	166,000	1.49
Texas	127,302	136,000	0.94
Washington	207,066	259,500	0.80
Mean	197,733	213,500	0.93

Sources: GAO (2018, Table 4); data.census.gov, 2015 ACS, 5-year estimates

Table 2

Number of Tax Credit Units Built in Metro Areas with Different Vacancy Rates
75 largest metro areas, 2005-2014

Vacancy Rate (%)	Tax Credit Units Placed in Service	Tax Credit Units as % of Occupied Rental Units
2.0-3.9	13,931	0.24
4.0-5.9	117,729	0.20
6.0-7.9	145,076	0.27
8.0-9.9	84,894	0.21
10.0-	223,220	0.25
Total	584,850	0.24

Note: Each observation refers to a single metro area in one year.
Sources: Vacancy rates, https://www.census.gov/housing/hvs/data/ann15ind.html
Tax credit units placed in service, https://www.huduser.gov/portal/datasets/lihtc.html
Occupied rental units, http://factfinder.census.gov/faces/nav/jsf/pages/index.xhtml

Chairman ENZI. Thank you for that summary of your testimony. Ms. Yentel?

STATEMENT OF DIANE YENTEL, PRESIDENT AND CHIEF EXECUTIVE OFFICER, NATIONAL LOW INCOME HOUSING COALITION

Ms. YENTEL. Thank you, Chairman Enzi and Senator Van Hollen for the opportunity to be here today. NLIHC supports some efforts to realign, streamline, and coordinate Federal housing programs, including many highlighted by Mr. Garcia-Diaz in his oral testimony.

But let us be clear. Consolidation or cutting funding is not the solution to the housing and homelessness crisis. What is most urgently needed is increased investments in solutions that are woefully underfunded.

Even before the pandemic, the country was in the grips of a pervasive affordable housing crisis. Nearly 8 million of our nation's lowest-income households are severely cost burdened, spending more than half of their limited incomes on rent and leaving very little else for other basic needs. More than half a million people experience homelessness on any given night.

Because Federal investments are chronically underfunded, just one in four eligible households receives rental assistance. Decades of structural racism create deep racial disparities in housing and homelessness. Black and brown people are disproportionately likely to rent their homes, to be very low income, to be rent-burdened, and to be homeless.

The housing crisis is most acute for extremely low-income households. Nationally, there is a shortage of 7 million rental homes affordable and available to them. Put another way, for every 10 of the lowest-income renters there are fewer than four apartments affordable and available to them. There is no State with enough affordable, available rental homes for its lowest-income residents.

Without affordable options, most of these renters live in housing they cannot afford, spending well over half of their limited income on rent, or doubling or tripling up in overcrowded housing. In worst cases, they become homeless, sleeping in cars, in homeless shelters, or on sidewalks.

The fundamental problem creating the affordable housing crisis is a mismatch between what people earn and what rent costs. Since 1960, renters' incomes increased by 5 percent while rents rose 61 percent.

There is also market failure and chronic underfunding of solutions. Without Federal subsidies, affordable homes cannot be built and operated at a price that the very lowest-income people can afford. Despite the urgent need, Federal funding for housing subsidies has not kept pace, and for many programs has precipitously declined over the last decade.

The pandemic has exacerbated the housing crisis. To make rent after having lost jobs or hours at work, millions of families are increasingly paying rent with credit cards or other borrowed money, or they are foregoing other necessities like store-bought food, relying on food banks instead, or skipping important medication to cut corners and save money. Many renters are falling behind on rent, accruing debt that they will not be able to pay off.

The Center for Disease Control and Prevention's (CDC) eviction moratorium extends vital protections to renters at risk of eviction, but while this action is long overdue and badly needed, it is a half measure that postpones but does not prevent evictions for the up to 30 to 40 million people at risk of eviction when the moratorium ends and back rent is owed.

To protect these households and avoid a massive wave of evictions, Congress and the White House must pass a relief package that includes essential resources and protections that were included in the HEROES Act that passed 4 months ago in the House: a nationally uniform moratorium on all evictions for nonpayment of rent for the duration of the pandemic; at least $100 billion in emergency rental assistance; and $11.5 billion to prevent outbreaks among people experiencing homelessness and to get them quickly housed.

The stakes could not be higher. Evictions risk lives. They drive families deeper into poverty. They burden already overstretched hospital systems and they make it harder for us as a country to contain the virus. Ensuring that everyone is stably housed during the pandemic is not only a moral imperative, it is a public health necessity.

And after Congress stems the tide of evictions it must go further and address the underlying causes of the crisis. Congress should fund the construction of apartments affordable to the lowest-income renters through the National Housing Trust Fund. Bridge the gap between what people earn and what rent costs through rental assistance like Section 8 vouchers. Provide emergency assistance to stabilize families for a financial emergency and prevent evictions, and preserve our country's existing public housing and other affordable housing stock.

Homelessness and housing poverty is a public policy choice. We can choose otherwise if we fund solutions at the scale needed. It has never been more clear that housing is health care, so let's take this moment not to tinker around the edges of housing programs but to expand and fully fund them.

Thank you again for the opportunity to testify and I look forward to your questions.

[The prepared statement of Ms. Yentel follows:]

PREPARED STATEMENT OF MS. DIANE YENTEL

NATIONAL LOW INCOME HOUSING COALITION

Senate Budget Committee Roundtable Examining Federal Housing Programs
Testimony of Diane Yentel
President and CEO of the National Low Income Housing Coalition
September 16, 2020

Chairman Enzi, Ranking Member Sanders, and members of the Committee, thank you for the opportunity to testify before this roundtable on "Examining Federal Housing Assistance Programs."

The National Low Income Housing Coalition (NLIHC) is solely dedicated to ensuring the lowest-income seniors, people with disabilities, families with young children and others in our country have safe, accessible and affordable homes. Our members include non-profit housing providers, homeless services providers, fair housing organizations, state and local housing coalitions, public housing agencies, faith-based organizations, residents of public and assisted housing and their organizations, low-income people in need of affordable homes, and other concerned citizens. NLIHC does not represent any sector of the housing field. Rather, we work with and on behalf of low-income people who need safe, accessible and affordable homes. NLIHC is entirely funded by private donations.

One of the most critical issues facing extremely low-income people today is the severe shortage of decent, accessible, and affordable homes. Today, nearly 8 million of our nation's lowest-income households live in housing poverty, spending more than half of their limited incomes on housing and having very little left for other basic needs. An additional half a million people experience homelessness on any given night. Just one in four eligible households gets the assistance they need to afford a place to call home. With increased investments in proven solutions, we can end homelessness and housing poverty once and for all.

In my testimony today, I will discuss: our country's severe shortage of homes affordable to the lowest-income people, the impact of the coronavirus pandemic on housing needs, the opportunity to invest in affordable housing, and efforts to streamline and coordinate federal housing programs.

I. The Need for Deeply Affordable Housing

Even before the current COVID-19 pandemic, the country was in the grips of a pervasive affordable housing crisis, impacting rural, suburban and urban communities alike. While the crisis has many dimensions, the fundamental problem is the mismatch between what people earn or otherwise have available to spend for their homes and what housing costs. Rents have risen much faster than renters' incomes over the last two decades: in fact, since 1960, renters' incomes have increased by only 5% while rents have risen 61%[1]. While more low-income people are renting their homes than ever before, the supply of affordable housing and rental

[1] Joint Center for Housing Studies of Harvard University. 2018. The State of the Nation's Housing. Cambridge, MA: Author.

assistance has not kept pace.[2] As a result, millions of households cannot afford a decent place to live.

The shortage of affordable homes is most severe for extremely low-income (ELI) households whose incomes are at or below the poverty guideline or 30% of their area's median income (AMI), whichever is higher. In Wyoming and Vermont, an ELI renter could be a family of four with two working parents who earn less than $23,900 annually combined, a low-income senior with an income of no more than $16,750, or a single person with a disability relying on an annual income of just under $10,000 from Supplemental Security Income (SSI).

Only 7 million affordable rental homes exist for the nation's 11 million lowest-income renter households, assuming they spend no more than 30% of their income on housing costs.[3] Not all of these 7 million homes, however, are available to the lowest-income renters. More than 3 million of them are occupied by higher-income households. As a result, only four million affordable *and available* rental homes exist for 11 million lowest-income renter households. In other words, for every 10 of the lowest-income seniors, people with disabilities, families with children, veterans and others, there are fewer than 4 affordable homes available to them.[4]

The shortage of affordable and available homes for the lowest-income renters ranges from most severe to least severe, but there is no state or congressional district with enough homes for its lowest-income renters.[5] For example, in Chairman Enzi's state of Wyoming, there are fewer than 5 affordable homes available for every 10 of the lowest-income renter households.[6] In Ranking Member Sanders's state of Vermont, there are just 4 affordable homes available for every 10 of the lowest-income renter households.[7] California and Florida - states represented by other members of the committee – have some of the worst housing needs in the nation, with fewer than 3 affordable homes available for every 10 of the lowest-income renter households.[8]

NLIHC's *The Gap: A Shortage of Affordable Homes* report shows the shortage of affordable and available homes for households at different income thresholds – those with incomes at 30% of AMI (ELI households), 50% of AMI, and 80% of AMI (Figure 1).[9] There are 36 affordable and available homes for every 100 households at 30% of AMI, 57 such homes per 100 households at 50% of AMI, and 93/100 at 80% of AMI.

---

[2] Ibid.

[3] According to HUD, households spending more than 30% of income for these housing costs are considered to be "cost-burdened." Households spending more than 50% are considered to be "severely cost-burdened."

[4] National Low Income Housing Coalition. 2020. *The Gap: A Shortage of Affordable Homes*. Washington, DC: Author. See: https://nlihc.org/gap

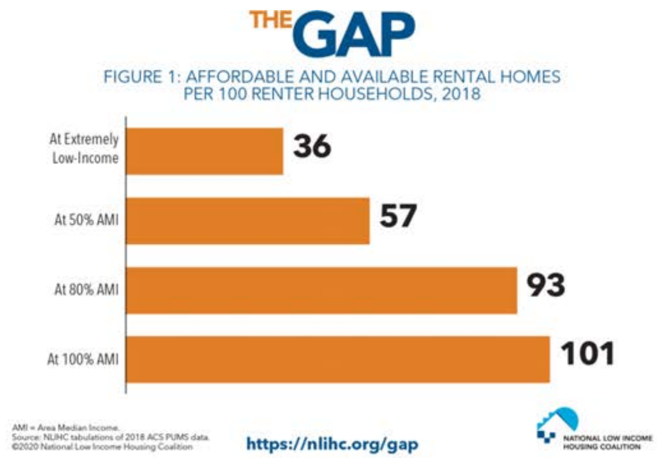
[5] National Low Income Housing Coalition. 2020. *The Gap: A Shortage of Affordable Homes*. Washington, DC: Author. See: https://nlihc.org/gap

[6] National Low Income Housing Coalition. 2020. Congressional District Housing Profiles: Wyoming. Washington, DC: Author.

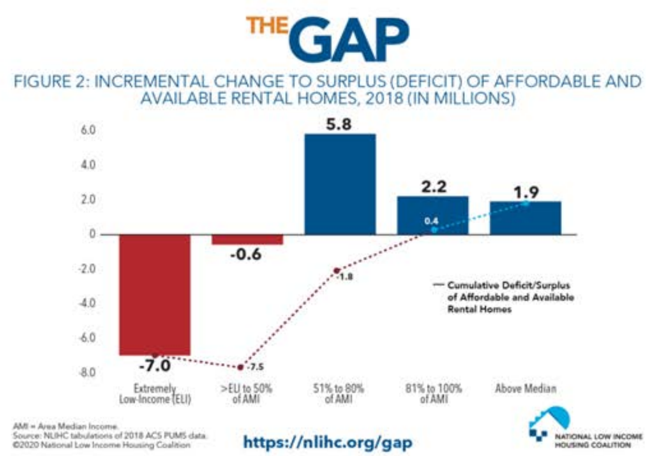
[7] National Low Income Housing Coalition. 2020. Congressional District Housing Profiles: Vermont. Washington, DC: Author.

[8] National Low Income Housing Coalition. 2020. Congressional District Housing Profiles: California and Florida. Washington, DC: Author.

[9] National Low Income Housing Coalition. 2020. *The Gap: A Shortage of Affordable Homes*. Washington, DC: Author. See: https://nlihc.org/gap



The Gap report also shows, however, that the lack of homes affordable and available to households with incomes above 30% of AMI is driven by the insufficient supply of homes for the lowest-income households. Figure 2 (below) shows the incremental change in the shortage or surplus of rental homes available and affordable to households of different incomes.



The shortfall of 7 million homes available and affordable to ELI households accounts for virtually the entire shortage of affordable homes in the U.S. In areas where very low-income and low-income households have difficulty with housing affordability, it is principally due to extremely low-income households having to rent homes they cannot afford, spending 50%, 60%, 70% or more of their incomes on their housing and competing with higher-income families for that limited housing. Because of the shortage of affordable and available homes, 11 million renter households are severely housing cost-burdened, paying more than half of their incomes towards housing. Almost eight million, or nearly three-quarters of these severely housing cost-burdened households, have extremely low incomes.[10]
https://reports.nlihc.org/sites/default/files/gap/gap-20_figure_04.jpg

Decades of structural racism created tremendous racial disparities in housing and homelessness. African Americans represent 13% of the general population but are 40% of people experiencing homelessness and more than 50% of homeless families with children. Black families are 26% of all extremely low-income renters. The housing crisis and its disproportionate harm to low-income people of color deepened over the last several decades.

Severe housing cost burdens can have negative consequences for families' physical and mental well-being. Severely housing cost-burdened families spend 74% less on healthcare and 35% less on food than similarly poor households who are not severely cost-burdened; and poor seniors who are severely cost-burdened spend 75% less on healthcare.[11] These households forgo healthy food or delay healthcare or medications to pay the rent. In the worst cases, they become homeless.

Housing cost burdens make it more difficult for extremely low-income households to accumulate emergency savings. Without emergency savings, unexpected costs (such as car repairs, medical bills, etc.) or loss of income (such as reduced work hours) can cause households to fall behind on rent and face eviction. Data from the 2017 American Housing Survey (AHS) show that households in poverty with severe housing cost burdens are more likely to fall behind on rent payments and be threatened with eviction than poor households that are not severely cost-burdened.

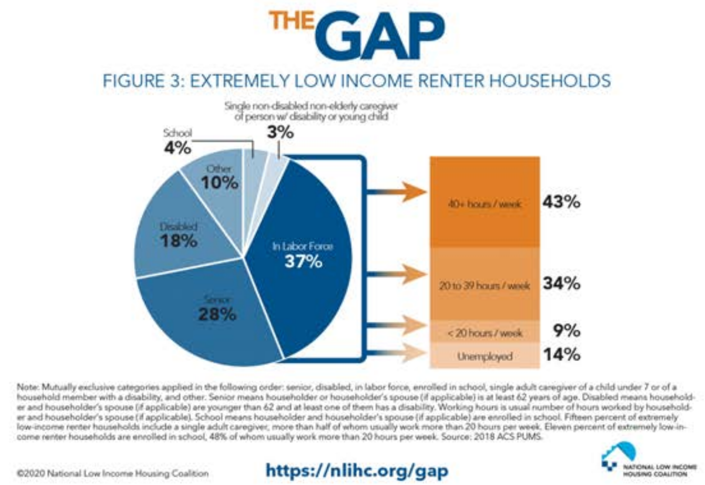
Housing instability causes significant disruptions in critical services and economic stability. The lack of stable housing, for example, can disrupt the care given to chronically ill individuals, interrupt student learning, and decrease academic achievement.[12] Housing instability can also undermine economic stability by disrupting employment. The likelihood of job loss increases for working low-wage renters who lose their homes (primarily through eviction),[13] indicating that

---

[10] National Low Income Housing Coalition. 2020. *The Gap: A Shortage of Affordable Homes*. Washington, DC: Author.
[11] Joint Center for Housing Studies of Harvard University. 2019. *The State of the Nation's Housing*. Cambridge, MA: Author.
[12] Maqbool, N., Viveiros, J., & Ault, M. 2015. *The Impacts of Affordable Housing on Health*. Washington, DC: National Housing Conference; Brennan, M., Reed, P., & Sturtevant, L. 2014. *The Impacts of Affordable Housing on Education*. Washington, DC: National Housing Conference.
[13] Desmond, M. & Gershenson, C. 2016. *Housing and Employment Instability among the Working Poor*. Social Problems, 63(1): 46-67.

affordable housing and housing subsidies are foundational to employment and economic security.

The majority (83%) of all severely housing cost-burdened and extremely low-income households are seniors, people with disabilities, or individuals in the labor force.[14] Many others are enrolled in school or are single adults caring for a child or a person with a disability (see Figure 3). With more than half of their limited incomes going to pay the rent, these families often have to forgo buying groceries, seeing a doctor, or saving for college or an emergency.



NLIHC's *Out of Reach: The High Cost of Housing* report estimates each locality's "housing wage," the hourly wage a full-time worker needs to earn to afford a modest apartment. In 2020, the national housing wage was $23.96 per hour for a two-bedroom apartment and $19.56/hour for a one-bedroom rental. The average minimum wage worker must work nearly 97 hours per week (more than two fulltime jobs) to afford a two-bedroom rental home or 79 hours per week (almost exactly two full-time jobs) to afford a one-bedroom rental home at the fair market rent. While the housing wage varies from state to state and county to county, in only 5% of all U.S. counties can a full-time minimum-wage worker afford a one-bedroom rental home at fair market rent.

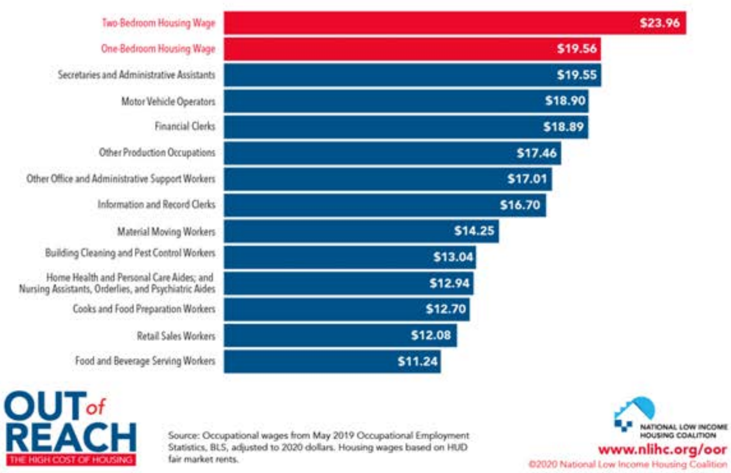
It's not just minimum wage workers for whom rents are out of reach: the average renter in the U.S. earns approximately $18.22 per hour, $5.74 per hour less than the national two-bedroom

[14] National Low Income Housing Coalition. 2020. *The Gap: A Shortage of Affordable Homes*. Washington, DC: Author.

housing wage. In 49 states, the District of Columbia, and Puerto Rico, the average renter earns less than the average two-bedroom Housing Wage.[15]

This mismatch between wages and housing costs will continue. Twelve of the 20 largest occupations in the U.S. pay a median hourly wage that is less than what a full-time worker needs to earn to afford a modest apartment at the national average fair market rent (Figure 4).[16]

FIGURE 4: TWELVE OF THE TWENTY LARGEST OCCUPATIONS IN THE UNITED STATES PAY LESS THAN THE HOUSING WAGE



II. Declining Federal Resources

The shortage of rental homes affordable to the lowest-income people is caused by market failure and chronic underfunding of solutions. Without government intervention, decent and affordable homes cannot be reliably built, operated, and maintained at a price that the very lowest-income workers, seniors, or people with disabilities can afford. The private market cannot on its own solve this persistent market failure. Government intervention, in the form of subsidies, is necessary to fill the gap between what people can afford to pay and the costs of developing and operating rental homes.

Today's modern phenomenon of homelessness did not exist in the late-1970s because our country housed almost everyone, including the lowest-income and most vulnerable families. At

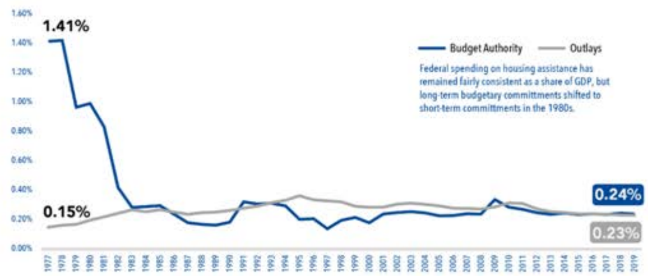
[15] National Low Income Housing Coalition. 2020. *Out of Reach: The High Cost of Housing* [data files]. See: https://nlihc.org/oor

[16] National Low Income Housing Coalition. 2020. *Out of Reach: The High Cost of Housing*. Washington, DC: Author

that time, our country had a modest surplus of homes affordable and available to the lowest-income people. The primary difference between then and now: federal subsidies.

Figure 5 shows budget authority and outlays for discretionary federal housing assistance as a share of gross domestic product (GDP) from FY1977 to FY2018. Generally, outlays for discretionary housing assistance kept pace with economic growth through this period, even growing 0.8% as a share of GDP from 0.15% in FY1977 to 0.23% in FY2018. Despite this relative stability, which can look quite different for individual programs, HUD assistance has failed to reach at least 70% of eligible households since the early 1980s. We've been locked into severely inadequate spending levels for nearly four decades.

FIGURE 5: BUDGET AUTHORITY AND OUTLAYS AS A SHARE OF GDP FOR DISCRETIONARY HOUSING ASSISTANCE PROGRAMS



NATIONAL LOW INCOME HOUSING COALITION

Note: Housing assistance primarily includes HUD and USDA RD programs.
Source: OMB Historical Tables 5.6 (Budget Authority for Discretionary Programs: 1976-2025), 8.7 (Outlays for Discretionary Programs: 1962-2025) and 10.1 (Gross Domestic Product and Deflators Used in Historical Tables: 1940-2025).

Figure 5 also indicates a steep decline in budget authority for discretionary federal housing assistance between FY1978 and FY1982-1983 when it began to come roughly in line with outlays, indicating a critical shift from long-term commitments to short-term appropriations for low-income housing programs.[17,18] Prior to the 1980s, most contracts for housing assistance programs were funded for multiple years (30 years for some programs). Budget authority for the duration of these contracts was provided upfront. This approach was conducive to expanding commitments for additional subsidized housing. For example, in 1977, the outgoing Ford administration submitted a budget request to Congress calling for the funding of an *additional* 506,000 low-income units.[19] This approach meant HUD budget authority was second only to the Department of Defense by the late 1970s.[20] But while the Department of Defense's discretionary budget authority has grown nearly five-fold since 1978, HUD's budget has failed to keep pace

[17] Dolbeare, C., Crowley, S. (2002). *Changing Priorities: The Federal Budget and Housing Assistance 1976-2007.* Washington, DC: National Low Income Housing Coalition.
[18] Schwartz, A. (2015). *Housing Policy in the United States, 3rd ed.* New York, NY: Routledge.
[19] Dolbeare, C., Crowley, S. (2002). *Changing Priorities: The Federal Budget and Housing Assistance 1976-2007.* Washington, DC: National Low Income Housing Coalition.
[20] Schwartz, A. (2015). *Housing Policy in the United States, 3rd ed.* New York, NY: Routledge.

with inflation. In 2019, HUD's budget authority lagged behind that of the Departments of Health and Human Services, Veterans' Affairs, Education, and Homeland Security (Chart 1).

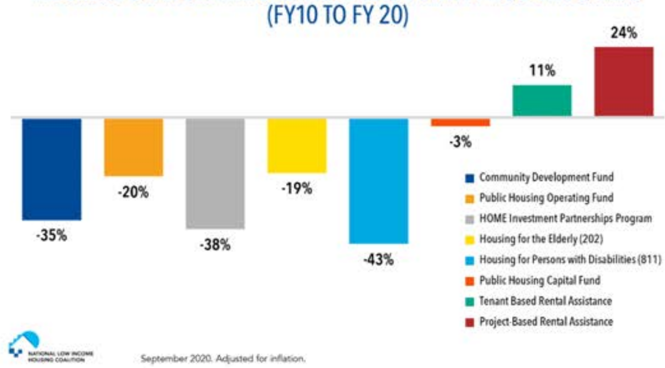
CHART 1: DISCRETIONARY BUDGET AUTHORITY

	1978	2019
Department of Defense	$114.7 Billion	$687.9 Billion
HUD	$37.3 Billion	$48.4 Billion

Source: OMB historical tables 5.4.

HUD's budget has declined dramatically over the last ten years since the Budget Control Act (BCA) was enacted. Inflation-adjusted federal funding for public housing, housing for the elderly, housing for persons with disabilities, and other important programs has fallen precipitously since FY2010. Only funding for tenant-based and project-based rental assistance programs has modestly increased to keep up with the rising operating cost for previously authorized assistance (see Figure 6).

FIGURE 6: CHANGES IN FUNDING LEVELS FOR KEY HUD PROGRAMS (FY10 TO FY 20)



III. **COVID-19 Exacerbated the Housing Crisis and Created an Acute Eviction Crisis**

The COVID-19 economic recession and its resulting job and wage losses magnified and accelerated the existing housing crisis. As of September 2020, 60 million Americans have filed for unemployment insurance.[21] Between March and July, unemployment rates fluctuated between 11.1% and 14.4%. By comparison, unemployment peaked at 10.7% during the Great Recession. More than 20 million renters live in households that have suffered COVID-19-related job loss.[22] This job loss is exacerbated by the recent expiration of pandemic unemployment insurance benefits across the country. With Congress and the White House in a stalemate regarding how or if to extend benefits, unemployed renters are at an even greater risk of financial constraints affecting their ability to pay rent.

Renters experiencing cash shortages are increasingly relying on sources other than income to pay rent. Thirty percent of renters report using money from government aid or assistance to pay rent, and another 30% indicate that they have borrowed cash or obtained a loan to make rental payments.[23] Tenants are increasingly using credit cards to pay the rent, with a 31% increase between March and April, an additional 20% increase from April to May, and a 43% increase in the first two quarters as compared to the prior year.[24] There is increasing evidence that families are shifting their budget towards rent. Food pantry requests have increased by as much as 2000% in some states,[25] with nearly 30 million Americans reporting they do not have enough food.[26]

The latest evidence of an impending eviction crisis is the significant decline in rental incomes during the pandemic in Class C properties, which tend to be older, lower-cost apartments serving lower-income households. In June 2020, tenants in these properties paid just 54% of total rents due, according to a study by LeaseLock. Even while expanded unemployment relief still flowed, total rents paid slipped to 37% in July (Figure 7). [27] Experts

---

[21] *The Coronavirus Pandemic Continues to Cause Record Claims for Unemployment Insurance*. 2020. Peter G. Peterson Foundation. Retrieved from: https://www.pgpf.org/blog/2020/09/the-coronavirus-pandemic-has-caused-a-massive-increase-in-claims-for-unemployment-insurance#:~:text=During%20the%20week%20that%20ended,and%20measures%20to%20mitigate%20it

[22] Benfer, E., et al. 2020. *The COVID-19 Eviction Crisis: An Estimated 30-40 Million People in America Are at Risk.* https://nlihc.org/sites/default/files/The_Eviction_Crisis_080720.pdf

[23] Born, M. 2020. "Rent Payments Increase Slightly in July, but Landlords and Tenants Continue to Struggle." Retrieved from: https://www.avail.co/blog/rent-payments-increase-slightly-in-july-but-landlords-and-tenants-continue-to-struggle

[24] Zego. 2020. "May Rent Payment Data Reveals April Trends Have Continued as a Result of COVID-19." Retrieved from: https://www.gozego.com/articles/may-rent-payment-data-reveals-april-trends-have-continued-as-a-result-of-covid-19/

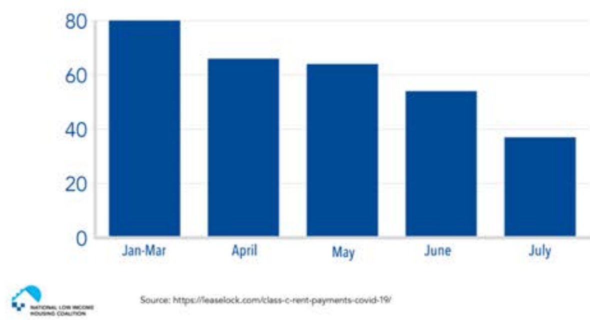
[25] Golla, B., Javed, I., & Kreuter, M. 2020. "Food Pantries: UPDATED." Health Communication Research Laboratory. Washington University in St. Louis. Retrieved from: https://hcrl.wustl.edu/items/food-pantries-updated/

[26] Andone, D. 2020. "Nearly 30 Million Americans Told the Census Bureau They Didn't Have Enough to Eat Last Week." CNN. Retrieved from: https://www.cnn.com/2020/07/31/us/food-insecurity-30-million-census-survey/index.html

[27] *Class C Residents Show Signs of Growing Financial Strain*. 2020. LeaseLock. Retrieved from: https://leaselock.com/class-c-rent-payments-covid-19/

predict that rental incomes for these properties will continue to decline following the expiration of expanded unemployment benefits.

FIGURE 7: PERCENT OF TOTAL RENT COLLECTED, CLASS C PROPERTIES
FIRST 15 DAYS OF THE MONTH



Federal, state and local eviction moratoriums provided important protections for some renters, but they are expiring rapidly. In the first month of the pandemic, the federal government instituted a limited moratorium on evictions in federally-assisted housing and for properties with federally backed mortgages. This limited federal eviction moratorium implemented under the CARES Act protected about 30% of renters.[28] In addition, a patchwork of state and local eviction moratoriums were implemented, protecting more renters. The Eviction Lab's Eviction Tracker System indicates that eviction moratoriums were effective in reducing eviction filings when they were in place.[29] Federal protections expired on July 24, however, and at the time the CDC national eviction moratorium was implemented, 30 states lacked state-level protections against eviction during the pandemic.

States, counties and cities have offered limited emergency rent assistance to renters and landlords by using funding provided in the CARES Act via Community Development Block Grants and the Coronavirus Relief Fund, as well as other funding sources.[30] According to analysis by the National Low Income Housing Coalition, however, the need has overwhelmed

[28] Goodman, L., Kaul, K., & Neal, M. 2020. "The CARES Act Eviction Moratorium Covers All Federally Financed Rentals – That's One in Four US Rental Units." Urban Wire: Housing and Housing Finance. Urban Institute. Retrieved from: https://www.urban.org/urban-wire/cares-act-eviction-moratorium-covers-all-federally-financed-rentals-thats-one-four-us-rental-units

[29] Eviction Tracking. 2020. Eviction Lab at Princeton University. Retrieved from: https://evictionlab.org/eviction-tracking/

[30] NLIHC. 2020. State and Local Rental Assistance. Retrieved from: https://nlihc.org/rental-assistance

many of these programs, as demonstrated by the use of lottery systems and the closure of 3 out of 10 programs.[31]

The data are clear that, without a significant and sustained federal intervention, America is facing an unprecedented eviction crisis. In an updated analysis of the U.S. Census Bureau's Pulse Survey, based on renter's own perceptions of their ability to pay, the Aspen Institute Financial Security Program and the COVID-19 Eviction Defense Project currently estimate that 29 million renters in 12.6 million households may be at risk of eviction by the end of 2020. Stout estimates that up to 40 million people in more than 17 million households may be at risk of eviction through the end of the year, when considering survey respondents who have a "moderate" degree of confidence in the ability to pay rent (in addition to those with slight or no confidence).[32] Both projections rely on renter perceptions of their ability to pay measured by the Pulse Survey.

The impact of an eviction on families and individuals is severe. Following eviction, a person's likelihood of experiencing homelessness increases, mental and physical health is diminished, and the probability of obtaining employment declines.[33] Eviction is linked to numerous poor health outcomes,[34] including depression, suicide, and anxiety, among others. In addition, eviction is linked with respiratory disease,[35] which could increase the risk of complications if COVID-19 is contracted, as well as mortality risk during COVID-19. Eviction makes it more expensive and more difficult for tenants who have been evicted to rent safe and decent housing, apply for credit, borrow money, or purchase a home. Instability such as that caused by eviction is particularly harmful to children, who suffer in ways that impact their educational development and wellbeing for years. The public costs of eviction are far reaching.[36] Individuals experiencing displacement due to eviction are more likely to need emergency shelter and re-housing, use in-patient and emergency medical services, require child welfare services, and experience the criminal legal system, among other harms.

A federal eviction moratorium issued by the Centers for Disease Control (CDC) went into effect on September 4, 2020 and will last through December 31, 2020. Citing the historic threat to public health, the CDC declared that an eviction moratorium would help ensure that people are

---

[31] NLIHC. 2020. NLIHC COVID-19 Rental Assistance Database. Retrieved from: https://docs.google.com/spreadsheets/d/1hLfybfo9NydlptQu5wghUpKXecimh3gaoqT7LU1JGc8/edit#gid=79194074

[32]Stout. 2020. *Analysis and Visualizations of Renter Confidence and Potential Evictions*. Retrieved from: https://app.powerbi.com/view?r=eyJrljoiNzRhYjg2NzAtMGE1MC00NmNjLTllOTMtYjM2NjFmOTA4ZjMyliwidCI6Ijc5MGJmNjk2LTE3NDYtNGE4OS1hZjI0LTc4ZGE5Y2RhZGE2MSIsImMiOjN9

[33] Collinson, R., and Reed, D. 2018. *The Effects of Evictions on Low-Income Households*. Retrieved from: https://www.law.nyu.edu/sites/default/files/upload_documents/evictions_collinson_reed.pdf

[34] Taylor, L. 2018. "Housing and Health: An Overview of the Literature." Health Affairs Health Policy Brief. DOI: 10.1377/hpb20180313.396577. Retrieved from: https://www.healthaffairs.org/do/10.1377/hpb20180313.396577/full/

[35] Braveman, P., Dekker, M., Egerter, S., Sadegh-Nobari, T., & Pollack, C. 2011. "How Does Housing Affect Health?" Robert Wood Johnson Foundation. Retrieved from: https://www.rwjf.org/en/library/research/2011/05/housing-and-health.html

[36] *Cost of Eviction Summary Report for the United States*. 2020. Innovation for Justice Program, University of Arizona James E. Rogers School of Law. Retrieved from: https://arizona.app.box.com/s/0cgdsbf8zj7i9rakayy5ehag4n55txwp

able to practice social distancing and comply with stay-at-home orders. The announcement cites the increased risk of spreading coronavirus when people are evicted from their homes or experience homelessness.

The temporary moratorium on evictions extends vital protections to tens of millions of renters at risk of eviction for nonpayment of rent during the global pandemic. The action is long overdue and badly needed, and it will provide essential protection to millions of renters. The very least the federal government ought to do during a global pandemic is assure each of us that we will not lose our homes in the midst of it.

But while an eviction moratorium during the pandemic is essential, it is a half-measure that postpones but does not prevent evictions. The only way to protect the 30 to 40 million renters[37] at risk of losing their homes by the end of the year is for Congress and the White House return to the negotiating table and work out a deal for a new coronavirus relief package that includes the essential resources and protections provided in the HEROES Act. Congress must enact legislation that includes NLIHC's top priorities[38]: a national, uniform moratorium on all evictions for nonpayment of rent; at least $100 billion in emergency rental assistance[39] through the "Emergency Rental Assistance and Rental Market Stabilization Act"[40] and housing vouchers; and $11.5 billion to help prevent and respond to outbreaks among people experiencing homelessness.

IV. Alleviating the Underlying Affordable Housing Crisis Through Investments

Congress should significantly expand investments in affordable housing for America's lowest-income and most marginalized households to help end homelessness and housing poverty once and for all.

NLIHC leads the *Opportunity Starts at Home* campaign, a multi-sector campaign to advocate for more robust and equitable federal housing policies. Its members, including national organizations from the housing, education, health, civil rights, anti-hunger, anti-poverty, faith-based, and other sectors, have identified three long-term policy strategies that are essential for Congress to act upon: dramatically expanding rental assistance; significantly expanding the supply of housing affordable to the lowest-income renters; and creating a new national program that provides temporary financial assistance to help cover rent for households experiencing unexpected economic shocks. We also must preserve the country's limited affordable housing stock.

---

[37] Benfer, E., et al. 2020. *The COVID-19 Eviction Crisis: An Estimated 30-40 Million People in America Are at Risk.* https://nlihc.org/sites/default/files/The_Eviction_Crisis_080720.pdf

[38] Responding to Coronavirus: Ensuring Housing Stability During a Crisis. 2020. National Low Income Housing Coalition. Retrieved from: https://nlihc.org/coronavirus-and-housing-homelessness/responding-coronavirus

[39] Aurand, A., Emmanuel, D., & Threet, D. 2020. "NLIHC Research Note: The Need for Emergency Rental Assistance During the COVID-19 and Economic Crisis." National Low Income Housing Coalition. Retrieved from: https://nlihc.org/sites/default/files/Need-for-Rental-Assistance-During-the-COVID-19-and-Economic-Crisis.pdf

[40] Emergency Rental Assistance and Rental Market Stabilization Act. 2020. National Low Income Housing Coalition. Retrieved from: https://nlihc.org/emergency-rental-assistance-and-rental-market-stabilization-act

Bridge the Gap Between Rents and Income

Rental assistance is a critical tool for helping vulnerable people afford decent, stable homes, and avoid homelessness. A substantial expansion of rental assistance for the most vulnerable households is a key element of any successful strategy to solve the affordable housing crisis. The most successful type of rental subsidy is the Housing Choice Voucher (HCV) program. Vouchers help people with the lowest incomes afford housing in the private market by paying landlords the difference between what a household can afford to pay for rent and the rent itself, up to a reasonable amount. Housing vouchers are also flexible — for instance, families may use them to rent homes that best meet their needs, including homes in areas with quality schools and greater access to jobs. Housing vouchers may also be tied to a specific housing development in a way that facilitates the development's financing and makes it easier for owners to provide health and other services that some people need.

While vouchers are the most common form of rental assistance, other promising policy innovations could be used to reach more families such as creating a new federal renters' tax credit. A variety of renters' tax credit proposals have been advanced, including some that would target aid to the nation's lowest-income and most marginalized households.[41]

Expand Affordable Housing Stock

In markets where vacancies in existing buildings are scarce, supply-side approaches are also essential to produce more affordable homes. To expand the affordable housing stock, Congress should significantly increase funding to the national Housing Trust Fund (HTF), a dedicated funding stream to efficiently build, rehabilitate, preserve, and operate rental housing for extremely low-income people. The national HTF is a block grant to states, which operates at no cost to the federal government because it is funded through very modest fees on Fannie Mae's and Freddie Mac's books of business. NLIHC and our partners across the country are grateful for Senator Sanders's leadership in establishing this critical program, and for his commitment to significantly expand it. (The HTF is currently woefully under resourced.)

Congress must ensure that other existing tools that produce affordable housing are targeted towards those with the greatest needs: the lowest income renters. To that end, Congress should reform and provide new incentives and/or resources for a significant share of Low Income Housing Tax Credit (LIHTC) units to be affordable to those with the lowest incomes and strategically sited to foster economically and racially inclusive communities.

Increasing the overall supply of units affordable for the lowest-income renters not only helps those renters but can also alleviate rent pressure for those with higher incomes. Millions of the lowest-income renters currently occupy units that they cannot afford, but those units could be

[41] Galante, C. et al. (2016). "The FAIR Tax Credit: A Proposal for Federal Assistance in Rental Credit to Support LowIncome Renters." Terner Center for Housing Innovation, UC Berkley, http://ternercenter.berkeley.edu/uploads/FAIR_Credit.pdf; Fischer, W. et al. (2017). "Renters' Credit Would Help Low-Wage Workers, Seniors, and People with Disabilities Afford Housing." Center on Budget and Policy Priorities, https://www.cbpp.org/research/housing/renterscredit-would-help-low-wage-workers-seniors-and-people-with-disabilities; Patenaude, P. et al. (2013). "Housing America's Future: New Directions for National Policy." Bipartisan Policy Center, https://bipartisanpolicy.org/wpcontent/uploads/sites/default/files/BPC_Housing%20Report_web_0.pdf.

affordable to those with higher incomes. A greater supply of rental housing would allow these lowest-income renters to move from unaffordable units to affordable units, thereby freeing up their original units for higher-income renters who could better afford them.

Preserve Affordable Housing

Congress should provide robust resources to preserve the existing affordable housing stock, including the roughly one million public housing units that are currently home to 2.6 million residents. Like other federal housing investments, public housing provides families with the affordable, stable homes they need to live with dignity and financial independence.

Waiting lists for public housing are often closed or have years-long wait times.[42] NLIHC's report *Housing Spotlight: The Long Wait for a Home* analyzed an NLIHC survey of PHAs and found that the average wait time is 9 months, and 25% of public housing waiting lists had a wait time of at 1.5 years. The largest PHAs had a median wait time of 2 years, and 25% of them had wait times of at least 4 years. In 2012, the last time national waiting list data was collected, there were approximately 1.64 million families waiting for public housing units with only 80% of housing agencies reporting. Many housing waiting lists have since closed altogether.

Beginning in the early 1980s, funding for public housing has decreased significantly. Between 2000 and 2016, funding for public housing repairs declined 53%, while funding for public housing operations met need only three times.[43] Between 2010 and 2016 alone, Congress cut public housing funding by $1.6 billion. While Congress recently increased funding for public housing in fiscal years 2018 and 2019, overall funding for the program remains 17% lower than the FY10 funding level.

These decades of declining resources have threatened the quality and even the existence of public housing. With limited funding, many public housing agencies (PHAs) are unable to make needed repairs to preserve these homes. As a result, our country loses 10,000 to 15,000 public housing apartments each year to obsolescence or decay,[44] as other public housing units fall into deep disrepair. In 2010, the country's public housing had a $26 billion capital-needs backlog, which is estimated to grow by $3.4 billion each year. The funding needed to address capital repairs in public housing is estimated to exceed $50 billion today.[45]

---

[42] Aurand, A. et al. (2016). *Housing Spotlight: The Long Wait for a Home*. National Low Income Housing Coalition. Retrieved from http://nlihc.org/article/housing-spotlight-volume-6-issue-1.

[43] Rice, D. (2016). *Cuts in Federal Assistance Have Exacerbated Families' Struggles to Afford Housing*. Center on Budget and Policy Priorities. Retrieved from https://www.cbpp.org/research/housing/chart-book-cuts-in-federalassistance-have-exacerbated-families-struggles-to-afford.

[44] National Low Income Housing Coalition. 2019. *Advocates Guide*. Washington, DC: Author. See: https://nlihc.org/sites/default/files/AG-2018/2018_Advocates-Guide.pdf

[45] The "Transportation, Treasury, Housing and Urban Development, Judiciary, and Independent Agencies Appropriations Act of 2008" directed HUD to perform an updated Capital Needs Assessment for the public housing portfolio. (The previous assessment was conducted in 1998.) HUD selected Abt Associates to conduct the assessment, which was published as Capital Needs in the Public Housing Program (Contract # C-DEN-02277-TO001) on November 24, 2010. The assessment estimated total capital needs of the nation's public housing portfolio in 2010 to be $25,607,944,000. In addition, the assessment noted that "assuming that existing capital needs were completely addressed, each year approximately $3.4 billion would be required to address the ongoing

Preventing Housing Instability with Emergency Assistance

Congress should create a "National Housing Stabilization Fund" to provide emergency assistance to the lowest-income households to prevent housing instability and homelessness. Temporary assistance can stabilize households experiencing economic shocks *before* they cause instability and homelessness, which often require more prolonged and extensive housing assistance. Today, countless households are one crisis (e.g., a broken down car, an unexpected medical bill, job loss, etc.) away from major economic hardship that could quickly spiral out of control.

The bipartisan "Eviction Crisis Act" introduced by Senator Rob Portman (R-OH) and Michael Bennet (D-CO) would create an emergency stabilization fund to provide financial assistance to cover the gaps between income and rental costs during a financial crisis. The bill also provides housing stability services, such as counselors and legal aid. When combined, short-term housing assistance and support services can significantly reduce evictions and homelessness, yet such aid is not available at the scale needed. A review of federal, state, and local programs that offer some form of emergency assistance and/or legal services show an uneven patchwork of support for vulnerable households.

V. The Case for Increased Federal Investments in Affordable Homes

Investing in affordable housing solutions, like the national HTF, rental assistance, public housing, rural and tribal housing, and other proven solutions to ending homelessness and housing poverty improves lives and saves the federal government money. Research clearly demonstrates that housing is inextricably linked to an array of positive outcomes in other sectors.

Education: Student achievement is maximized when students can go home to stable, affordable homes. Low-income children in affordable homes perform better on cognitive development tests than those in unaffordable homes.[46] Low-income students who are forced to change schools frequently because of unstable housing perform less well in school and are less likely to graduate,[47] and continual movement of children between schools disrupts learning for all students in the classroom because more time is required for review and catch-up work.[48]

---

accrual needs, or on average $3,155 per unit." Extrapolating the $3.4 billion in accrual needs each year from 2010 until 2019, the capital needs backlog is currently estimated to be $56.6 billion.

[46] Newman, S. J. & C. S. Holupka. 2015. "Housing Affordability and Child Well-Being." Housing Policy Debate, 25(1), 116-151. Retrieved: https://www.tandfonline.com/doi/abs/10.1080/10511482.2014.899261

[47] Voight, A., Shinn, M., & Nation, M. 2012. *The Longitudinal Effects of Residential Mobility on the Academic Achievement of Urban Elementary and Middle School Students*. Educational Researcher, 41(9), 385-392. Retrieved from http://journals.sagepub.com/doi/pdf/10.3102/0013189X12442239; Cunningham, M., & MacDonald, G. 2012. *Housing as a Platform for Improving Education Outcomes among Low-Income Children*. Washington, DC: Urban Institute. Retrieved from: http://www.urban.org/sites/default/files/publication/25331/412554-Housing-as-aPlatform-for-Improving-Education-Outcomes-among-Low-Income-Children.PDF; Fischer, W. 2015. *Research Shows Housing Vouchers Reduce Hardship and Provide Platform for Long-Term Gains Among Children*. Washington, DC: Center on Budget and Policy Priorities. Retrieved from http://www.cbpp.org/sites/default/files/atoms/files/3-10-14hous.pdf

[48] Cunningham, M., & MacDonald, G. 2012. *Housing as a Platform for Improving Education Outcomes among Low Income Children*. Washington, DC: Urban Institute. Retrieved from

When affordable housing options are located in high-opportunity areas with low poverty and economically diverse schools, it can dramatically lift the academic performance of low-income students and narrow the achievement gap between them and their more affluent peers.[49] Across the country, low-income families are priced out of the strongest schools; housing near high-performing public schools costs 2.4 times more than housing near low-performing public schools.[50]

Health: Decent, stable, affordable homes are a major social determinant of health and are linked to better health outcomes throughout a person's lifespan. Children who experienced prenatal homelessness are 20% more likely to have been hospitalized since birth. Children who experienced post-natal homelessness are 22% more likely to have been hospitalized since birth.[51] In 2011, families living in unaffordable homes spent one-fifth as much on necessary healthcare compared to those in affordable housing.[52] When people have access to good affordable housing, primary care visits increase by 20%, ER visits decrease by 18%, and total Medicaid expenditures decrease by 12%.[53] Children's HealthWatch estimates that the U.S. will spend $111 billion over the next ten years in avoidable healthcare costs because of housing instability.[54]

Racial Equity: Affordable homes located in economically diverse neighborhoods can help reduce residential segregation and concentrations of poverty. Today, one in four African American families and one in six Hispanic families live in neighborhoods of concentrated poverty, compared to only one in 13 white families. A recent study by the Urban Institute found that if Chicago reduced its residential segregation just to the national median, incomes for African Americans would rise by $2,982 per person per year, regional GDP would increase by $8 billion, the homicide rate would decrease by 30%, residential real estate values would increase by six billion dollars, and 83,000 more adults would complete bachelor's degrees.[55]

Economic Mobility: Affordable homes can also help children achieve the American dream by climbing the income ladder as adults. Economist Raj Chetty and his team looked at low-income

---

http://www.urban.org/sites/default/files/publication/25331/412554-Housing-as-a-Platform-for-ImprovingEducation-Outcomes-among-Low-Income-Children.PDF

[49] Schwartz, H. 2010. *Housing Policy is School Policy.* Washington, DC: The Century Foundation. Retrieved from https://tcf.org/assets/downloads/tcf-Schwartz.pdf.

[50] Rothwell, J. 2012. *Housing Costs, Zoning, and Access to High-Scoring Schools.* Washington DC: Brookings Metropolitan Policy Program. Retrieved: https://www.brookings.edu/wpcontent/uploads/2016/06/0419_school_inequality_rothwell.pdf

[51] Sandel, M., et. al. 2016. *Housing as a Healthcare Investment*. National Housing Conference and Children's HealthWatch.Retrieved: https://www.opportunityhome.org/wp-content/uploads/2018/02/Housing-as-a-HealthCare-Investment.pdf

[52] Joint Center for Housing Studies of Harvard University. 2013. *The State of the Nation's Housing.* Retrieved: http://www.jchs.harvard.edu/sites/default/files/son2013.pdf

[53] Wright, B., et. al. 2016. *Health in Housing*. Center for Outcomes Research and Education. Retrieved: https://www.enterprisecommunity.org/download?fid=5703&nid=4247

[54] Poblacion A, Bovell-Ammon A, Sheward R, Sandel M, Ettinger de Cuba S, Cutts D, Cook J. *Stable Homes Make Healthy Families.* Children's HealthWatch Policy Action Brief. August 2017. Available at: http://childrenshealthwatch.org/wp-content/uploads/CHW-Stable-Homes-2-pager-web.pdf

[55] Pendall, R., Acs, G., & Trekson, M. 2017. *The Costs of Segregation.* Urban Institute and Metropolitan Planning Cancel. Retrieved: https://www.metroplanning.org/work/project/33

children whose families used housing vouchers to access affordable homes located in neighborhoods with lower poverty. These children were much more likely to attend college, less likely to become single parents, and more likely to earn more as adults. In fact, younger poor children who moved to lower-poverty neighborhoods with a housing voucher earned an average of $302,000 more over their lifetimes compared to their peers in higher-poverty neighborhoods.[56] In 2015, the Children's Defense Fund modeled an expansion of the Housing Choice Voucher program and found that expanding these housing subsidies would reduce child poverty by 20.8% and lift 2.3 million children out of poverty. In fact, they found housing subsidies would have the greatest impact on alleviating child poverty compared to the nine other policy solutions they explored.[57]

Economic Productivity: Investments in affordable homes are a proven catalyst for economic growth, job creation, increased government revenue, and increased consumer spending. According to the National Association of Home Builders, building 100 affordable homes generates $11.7 million in local income, 161 local jobs, and $2.2 million in taxes and other revenues for local government. The high costs of housing are limiting opportunities for people to increase their earnings, which, in turn, slow GDP growth. Researchers estimate that GDP growth between 1964 and 2009 would have been 13.5% higher if families had better access to affordable homes. This GDP increase would have meant a $1.7 trillion increase in income, or $8,775 in additional wages per worker.[58]

Food Security: When rent eats up an already limited paycheck, low-income families have fewer resources to buy adequate and nutritious food. Low-income families that live in affordable homes experience greater food security and their children are 52% less likely to be seriously underweight compared to those who are cost-burdened by rent.[59]

Criminal Justice: Individuals transitioning out of the criminal justice system face many housing obstacles and are vulnerable to homelessness. They need a good place to call home so that they can reconnect with society and rebuild their lives. Formerly incarcerated individuals who find stable affordable housing are less likely to go back to jail than those who do not.[60]

Veterans: After serving our country bravely, veterans need access to decent, stable, affordable homes so they can thrive in the neighborhoods they swore to defend. Rental assistance for

[56] Chetty, R., Hendren, N., & Katz, L. 2015. *The Effects of Exposure to Better Neighborhoods on Children: New Evidence from the Moving to Opportunity Experiment*. Cambridge, MA: National Bureau of Economic Research. Retrieved from http://www.nber.org/mtopublic/final/MTO_IRS_2015.pdf.

[57] Children's Defense Fund and Urban Institute. 2015. *Ending Child Poverty Now*. Retrieved from: https://www.childrensdefense.org/wp-content/uploads/2018/06/Ending-Child-Poverty-Now.pdf

[58] Moretti, E. & Hsieh, C. 2015. *Housing Constraints and Spatial Misallocation*. American Economic Journal: Macroeconomics. Retrieved: http://faculty.chicagobooth.edu/chang-tai.hsieh/research/growth.pdf

[59] Children's HealthWatch and Medical-Legal Partnership of Boston. 2009. *Rx for Hunger: Affordable Housing*. Retrieved from: https://www.issuelab.org/resources/5379/5379.pdf

[60] Fontaine, J. 2013. *The Role of Supportive Housing in Successful Reentry Outcomes for Disabled Prisoners*. Cityscape: A Journal of Policy Development and Research, 15(3). US Department of Housing and Urban Development. Retrieved from: https://www.huduser.gov/portal/periodicals/cityscpe/vol15num3/ch3.pdf

veterans has proven highly effective in dramatically reducing veteran homelessness, but there remains significant unmet need.[61]

The evidence is abundantly clear that being able to afford a decent home in a strong neighborhood is a prerequisite for opportunity in America. The promise of better health, increased economic opportunity, and quality education can be fulfilled only if our nation's families have safe, decent, affordable homes.

VI. Duplication and Consolidation of Federal Housing Programs

In 2012, the Government Accountability Office issued a report on "Housing Assistance: Opportunities Exist to Increase Collaboration and Consider Consolidation." The report outlines areas where federal agencies that oversee housing programs can better coordinate efforts, as well as the challenges and tradeoffs of doing so. While NLIHC supports some efforts to realign federal housing spending to better focus on individuals with the greatest needs and to streamline and coordinate federal housing programs, consolidation of federal programs is not the solution to ending homelessness or housing poverty.

During the debate over the 2017 tax bill, NLIHC urged Congress to reform the mortgage interest deduction (MID) to better reach low- and moderate-income homeowners and to reinvest the savings into targeted and proven programs, such as the national Housing Trust Fund and housing vouchers, to serve households with the greatest needs. The 2017 tax bill did reform the MID, but left it even more regressive than before; only the highest-income households with the largest mortgages now benefit from the MID. At a time when federal housing investments are scarce, Congress should look for ways to better reform or even eliminate the MID and to invest these resources to build and preserve housing affordable to people with the greatest needs, including people experiencing homelessness.

There are significant opportunities to streamline and coordinate federal housing programs. A key example is the need to reduce barriers to layering financing sources to build and preserve affordable rental housing. These barriers have made it difficult, for example, for USDA and housing providers to preserve USDA's rural housing portfolio. We appreciate that USDA staff are working to better align its rental housing program with the Low Income Housing Tax Credit so that developers can better access these funds to preserve aging rural homes. These efforts should continue and are even more important given the dramatic cuts to the Rural Housing Service budget over the past few decades. USDA's Section 515 program is critical to building affordable housing in rural communities. Since the height of the program in the late 1970s, however, Section 515 has been cut by more than 95%. Because funding levels are so low, USDA has not allocated any Section 515 funds for new construction, and instead is only focused on preservation.

Federal agencies overseeing housing programs should better coordinate programs and goals and share best practices. The U.S. Interagency Council on Homelessness (USICH) has, in the past, provided a good model for these efforts. USICH coordinates federal efforts to end

---

[61] Fischer, W. 2014. *Rental Assistance Helps More than 340,000 Veterans Afford Homes, But Large Unmet Need Remain.* Center on Budget and Policy Priorities. Retrieved: https://www.cbpp.org/research/rental-assistancehelps-more-than-340000-veterans-afford-homes-but-large-unmet-needs-remain#_ftn4

homelessness across 19 agencies, and it had remarkable success in doing so under the Obama administration. Through better coordination and a significant investment by the federal government in targeted resources, the federal government and its partners successfully and dramatically decreased veteran homelessness.

It is critical to note that while coordination and collaboration were critical to USICH's successful efforts, they are not sufficient on their own to produce these outcomes. The successful reduction in veteran homelessness was largely due to robust federal resources invested to serve this population. We can have similar successes in other areas of housing and homelessness if we have the political will to invest the resources necessary.

VII. Conclusion

The country's affordable housing crisis has reached historic heights, most harming the lowest-income and most marginalized renters. The current pandemic and the failure of Congress and the White House to pass a robust relief package are exacerbating the housing crisis and could lead to a tsunami of evictions and a spike in homelessness.

Inaction is expensive; investments in proven solutions to end homelessness and housing poverty benefit us all. Affordable housing is a long-term asset that helps communities and families thrive. Congress should increase investments in decent, affordable rental homes for households with the lowest incomes.

NLIHC looks forward to working with Congress to advance and enact bold and much-needed solutions. Thank you again for the opportunity to testify today. I look forward to your questions.

Chairman ENZI. Thank you. I appreciate the comments of all of you who have testified. A lot of good information there, and additional information in the materials that you submitted, which I will encourage other Senators and staff to take a look at.

Now we will turn to questions. Let me take a moment to explain the process to the Committee members before we start. I will start with some general questions and then Senator Van Hollen will follow that, and then other members can have an opportunity to question too. We have a process for those who are here or online to move to the front of the line and other people as they join us.

For the witnesses, as I mentioned in my opening remarks, the purpose of a roundtable is to gather information, so if a question is asked and you would like to comment on it, even if it was not directed at you, if you would hold your hand up or something, the staff here will help me to monitor the thing so we can tell who wishes to speak.

I would also ask anybody participating via video to keep themselves on mute until they are speaking. That helps to eliminate some interference. We had a problem with that just before we opened up.

So with that I will go ahead and move to questions. The first one would be to all three. To frame the discussion and put the 2012 GAO report on housing duplication and overlap into context and help us solicit ideas from the panel I will start with a hypothetical question. If each of you were designing a Federal housing assistance program from scratch, would it look like the system we have today? If yes, why. If no, what would an effective and efficient system actually look like?

Mr. Garcia-Diaz?

Mr. GARCIA-DIAZ. Yes, Mr. Chairman. So from this hypothetical I would certainly hope that we have learned plenty over the past 80 or 90 years of providing housing assistance and that if we were to be designing a new system that it would incorporate a lot of those lessons.

Our work, at least, points to the few areas to consider in a new system of housing. One is that housing subsidies, and especially housing subsidies targeted to extremely low and low-income households is very expensive. And the empirical evidence, and certainly the work we have done, certainly points to tenant-based assistance and vouchers as being a very cost-effective approach to deliver housing. And so it is by no means a perfect solution. It has its own challenges, but it also has many advantages from a policy standpoint as well.

Housing production has been part of the Federal toolkit for much of that time. In fact, for a longer period of time. But I would hope that we take away a few elements that were lessons learned, let's say, from these programs and how they have operated in the past. One certainly is to address the cost issue and certainly limiting and understanding development costs. But the other part—and we see this, for instance, in public housing—is planning for future needs and designing features, program design features that allow for the funding of maintenance and modernization. Historically, the Federal Government has struggled to fund reserves, establish mechanisms to fund ongoing maintenance and modernization in aging property.

And a related point to that is building, in these production programs, a preservation strategy from the get-go. The minute the ribbon is cut and the property is opened it is starting to deteriorate, and the contracts on the property are going to expire at some point, and the use agreement will go with it.

And so having the tools already and the criteria to make decisions later on, and the structure to make those decisions later on for preservation and the decision to preserve those properties are key. And we are seeing today where even after all we have learned about preserving properties we have USDA and Rural Housing Service about to experience a wave of loans maturing and rental systems contracts expiring. And so I would hope that it would take some of that into account in the design of the program.

And finally, and very quickly, I would say location matters. And so to the extent that programs take into account where people are living, concentration of poverty, and linking families to good schools and social services I think is key moving forward.

Chairman ENZI. Dr. Olsen, did you want to comment on that?

Mr. OLSEN. Yes. Thank you. So my comment is really very simple. The current system is highly inefficient and inequitable. Subsidized housing projects are very expensive for the housing that they provide. The majority of the poorest people receive no housing assistance, and other people with the same incomes receive large subsidies.

So if it were left to my own devices there would be only one low-income housing program. It would be a simplified version of the current Housing Choice Voucher program that was used during the Housing Assistance Supply Experiment. It would provide the same assistance on the same terms to renters and homeowners who are in the same economic circumstances. Renters and homeowners in the same economic circumstances would get the same subsidy, under the same terms.

I personally would offer subsidies less generous than the current housing voucher program, but that is not fundamental to me. What is fundamental is to offer assistance to all of the eligible households. No exceptions.

Chairman ENZI. Thank you. Ms. Yentel?

Ms. YENTEL. Yes. Thank you. So I am a strong supporter of the Section 8 voucher program. It is a proven solution to ending homelessness and housing poverty, and I really welcome the strong, it appears bipartisan support for the program and for, I believe for expanding the program.

But suggesting that that program be the single housing program of the Federal Government, with respect, is a vast oversimplification of our country's housing system, of the needs throughout the country, and what is truly needed to respond to them.

I do agree that the system that we have today is overcomplicated and could be improved. And one of the main principles that we believe all housing—really all Federal spending should follow is that scarce Federal resources should be targeted towards those with the greatest needs. And when it comes to housing it is very clear that the greatest needs exist among the lowest-income people, extremely low-income people and people experiencing homelessness.

So the more we can realign Federal housing programs to meet the needs of those extremely low-income renters, the better the Federal dollars will be used. And I think a good example of that, within the existing system, a good example of where there is waste and poor alignment is the mortgage interest deduction. You know, before the 2017 tax bill we spent about $200 billion as a country to help Americans, to subsidize Americans to buy or rent their homes, and the vast majority of that, three-quarters of that, goes— went to subsidize higher-income people to be homeowners.

And the mortgage interest deduction has been proven time and again to be a very regressive tax policy and not at all to actually subsidize or incentivize home ownership. What it does is incentivize current homeowners to take on bigger mortgages and buy bigger homes. And the tax bill did reduce the funding for the mortgage interest deduction down to about $30 billion, but 80 percent of that goes to the top 20 percent of earners in our country. So again, highly regressive and poorly aligned use of scarce Federal resources. We would propose that the mortgage interest deduction certainly be reformed or even eliminated, and that the funds that are utilized there today be redirected to housing programs that assist the lowest-income renters or people experiencing homelessness.

Chairman ENZI. Thank you, and that expires my time. Senator Van Hollen.

He is on the floor speaking so we will go to Senator Kaine.

Senator KAINE. Well, Mr. Chair, thank you for doing this. For 17 years before I was in politics I was a fair housing attorney in Richmond. I worked a lot on housing issues, representing people that had been discriminated against, and then have worked in housing at the local, State, and Federal level, so I am really interested in this hearing.

And I sort of have one question that is, I guess, primarily for Professor Olsen and then one question for Ms. Yentel. So to Professor Olsen, and a shout-out to UVA, your thought about simplification in the Housing Choice Voucher program. I am a strong supporter of that program.

What fair housing lawyers find that is often a challenge with the Section 8 programs or housing voucher programs is that landlords of rental properties refuse to accept it. They are not allowed to refuse to rent to someone because of the color of their skin or gender or religion, but you are allowed to reject someone because of the kind of income that they put on the table. And so someone who wants to, frankly, discriminate on the grounds of race, knowing that many of these programs disproportionately are for minority families, say, “Well, I would like to rent to you but we don’t accept vouchers” or “We don’t accept Section 8.”

And even if there is not a racial motive there, if you have a big expansion of a housing voucher program but landlords retain the ability to turn down people based on their source of income, if it is a voucher, if it is a social security disability check, then people who are in that situation have dramatically fewer housing options.

So my question for you is, I am assuming your simplification proposal—if we took all of the housing programs and put it into housing vouchers—you would support a concept that I initially introduced with Senator Orrin Hatch, which would be to change the Federal Fair Housing Act to make any discrimination based on the type of income a violation of the Federal Fair Housing Act, so that people with vouchers could be treated equally to those who brought a paycheck or, you know, other forms of income that could be used for their housing. Am I correct in making that assumption?

Mr. OLSEN. I do not have a strong view about that. I did a little analysis of source-of-income law. So some States and localities have source-of-income laws——

Senator KAINE. Yes.

Mr. OLSEN. —which you are talking about, and I guess you are proposing to make it a national law.

Senator KAINE. Yes.

Mr. OLSEN. I looked at how the voucher utilization rate depended on source-of-income laws, and it did not have a big effect. And one thing to realize is the current voucher program, is operated throughout the country and most places do not have source-of-income laws. Half of the recipients are black. So the housing voucher program, even without additional source-of-income laws, certainly serves blacks heavily.

Senator KAINE. And just in the discussions phase——

Mr. OLSEN. The only study I have read on source-of-income laws suggests they have a modest effect. So I would just say do not hope for too much on that.

Senator KAINE. Right. I mean, and I think your point is right, that the American population is a certain percentage African American, probably somewhere between 12 and 20 percent. I do not know the precise number. But if 50 percent of those receiving housing voucher programs are African American then a landlord who might want to discriminate on the basis of race can say, "Well, I am not going to accept vouchers," and that is allowed under current law in many jurisdictions, even though it has a disproportionate racial effect. And so I would hope that we might eliminate that.

For Ms. Yentel, so here is a question I want to ask you about, to dig deeper into a point you made about Professor Olsen's point. If you and I reached a funding level for housing that we agreed at, that you agreed was sufficient to meet the national need, and then we converted every housing program, including mortgage interest deduction, into a housing voucher, so there was just a single program but adequately funded, if you accept my assumption, what would be the problem or challenge with a Federal housing policy that put that adequate funding into a single program of a Housing Choice voucher?

Ms. YENTEL. Well, there is no silver bullet solution to the housing crisis, right, and in some markets where there is a sufficient supply of apartments, and the main challenge is that people living in them cannot afford them, rental assistance is essential and very helpful to making people pay the rent and stay housed.

There are, as you suggest, some challenges with the voucher program. It needs additional improvements. Source-of-income discrimination is a very real problem, and while ultimately voucher dollars get used, there is a lot of churning that happens where in some communities like in Los Angeles as many as 78 percent of renters with vouchers get turned away by landlords when trying to rent that apartment, due to source-of-income discrimination. That voucher then gets turned back to the Public Housing Agencies (PHA) and given to another renter, who can use it, but the original renter is out of luck.

So we do need source-of-income protections. We need changes to how the value and the worth of vouchers are set, by using small area Fair Market Rents (FMR) rather than existing fair market rents.

But in other communities there are simply not enough apartments for everybody that lives in that community, and there we have to produce more affordable homes, and we have to produce them so that they are affordable to the lowest-income people, through programs like the National Housing Trust Fund or through deeply-targeted low-income housing tax credits. This combination of supply side solutions and demand side solutions is a better approach to the housing crisis than oversimplifying with just one solution.

Senator KAINE. Thank you, Mr. Chair.

Chairman ENZI. Thank you. From your question, though, I have another question. What if we were to change all the programs over to a voucher system? That would differ from what we have been doing, which is we provide developers with the money to build houses provided they allocate a certain percentage to low income. And then we pay off those buildings, and then we do not wind up with anything.

I love the comments that we had about the need for maintenance and preservation. I think those do have to start early.

But if we did change over to housing vouchers as a project-based assistance, why do you favor a voucher-based system? How do you answer critics who claim this puts the users of the vouchers at the mercy of unscrupulous landlords, which is similar to the problem that you just raised? Does it concern any of you that after providing these dollars, the Federal Government does not actually own any physical assets? Does anybody want to comment on that?

Mr. OLSEN. Yes, I would like to comment on that.

Chairman ENZI. Dr. Olsen.

Mr. OLSEN. First of all, I do not have any reason to believe that landlords are particularly unscrupulous, but whether they are scrupulous or not, I think that they cannot take advantage of voucher tenants. The people who take advantage of voucher tenants are the people who run subsidized housing projects, because if you are a tenant in a subsidized housing project and you leave, then you lose your subsidy.

So the people who run subsidized housing projects have a captive audience, whereas if you have a voucher, and the total amount being paid in rent for that voucher is very high relative to how good the unit is, you can take the voucher, go to another unit that is better, and you will continue to pay the same rent. So you are not a captive audience.

And on the issue of does it bother me that the government does not end up with physical assets, not a bit. I do not want the government to be owning housing projects any more than I want the government to be running farms or groceries in order to provide food assistance to low-income households. We have a program that has had government ownership of housing projects. It is called the Public Housing Program, and its performance has been terrible, and there is a lot of evidence on that.

Chairman ENZI. Thank you. Anyone else want to comment on that?

Ms. YENTEL. I would, yes.

Chairman ENZI. Ms. Yentel.

Ms. YENTEL. To the point of public housing, public housing has been drastically underfunded for decades. So to the extent that there has been any failure, it has been a failure on the part of Congress to live up to its commitment to make public housing decent, safe, and sanitary homes.

And again, the Section 8 voucher program is a very successful, important program, and the point that Dr. Olsen raises about it being a mobile voucher is one of its strengths, for the reasons he suggested and also because it allows families to move to neighborhoods maybe that have better performing schools or more access to transportation or jobs, and not to lose their housing assistance when they do. So that is the strength of the voucher program.

I just want to add to what I have already shared about the need for construction, and construction of homes affordable to lowest-income people is that the private market also does not meet the housing needs of certain populations, for example, very large families or people with disabilities who need accessible homes. And that is another place where programs like the National Housing Trust Fund, the Low-Income Housing Tax Credit, or public housing provide those kind of units that are needed by Americans, but not generally available in the private market.

Chairman ENZI. Senator Kaine.

Senator KAINE. Mr. Chair?

Chairman ENZI. Mr. Kaine next and then Senator Scott.

Senator KAINE. Mr. Chair, I just want to share a story. I completely embrace the need for simplification. I think this is a smart hearing to have. I also resonate with what Ms. Yentel said. We could do dramatic simplification. I think doing one program alone would be too simple.

I would really like housing vouchers if we put a requirement that all landlords must accept all sources of income. Often a landlord will accept paycheck on a job that could be gone next week and not accept a Section 8 voucher, which is not going to be gone next week. So if we are going to have voucher programs I think we should have protection against source-of-income discrimination.

But I do believe, and Ms. Yentel just mentioned this, the Low-Income Tax Credit program has been really valuable in producing housing for particular groups of people for whom there was not housing. Here is an example in Virginia. When I was lieutenant governor I was chair of the State's Housing Commission, and we, based on a number of analyses, became aware there was insufficient rental housing for people with disabilities. The design standards of the wider doors and lower cabinets—people were not building those. They were not building them.

They were not discriminating against somebody trying to rent and saying, “We will not rent to you because you are in a wheelchair.” But if the door was not wide enough and the counters were not low, folks could not live there.

So we approached our Housing Development Authority and said competition for these low-income tax credits is very high. Developers want to get them, because it helps them finance their projects. We will give extra points in such competition for any developer that proposes to have X percentage of their units designed to standards that would accommodate folks with disabilities.

And we got a lot of grief from that from the development community, but the Housing Authority did embrace this, now 10 or 15 years ago. And immediately all the developers knew that if they were going to win the competition they would have to produce accessible units, and they started to do it.

And they learned something. Here is what they learned. Folks with disabilities who rented a unit that they liked were some of their most loyal tenants. If they found a unit that would work for them, they would not stay for a year and go somewhere else. They would stay year after year after year. Folks who had no disability who rented those units would have disabled friends or children who could visit or stay with them. Or when they got ill or they got elderly, suddenly that unit was sufficient for that chapter of their life, even if they would not have needed some of those modifications before.

And many of the developers came up years later and said, “This was actually really, really smart. It was the right thing to do, and we adjusted our practices. And what we learned was this is a population we were not serving and now we are serving them, and we are doing well and doing good at the same time.”

So I sort of resonate with Ms. Yentel on the point that going to one program would probably be too streamlined. I do think we have to put choices in the hands of individuals. The voucher program does that, if we can make some modifications and protections. But we also have to have rigorous studies and then try to incentivize the production of housing for particular populations that may be difficult to house.

And, you know, I think there is probably some bipartisan support for, you know, both halves of what I just said. So this is helpful to hear these witnesses.

Chairman ENZI. Senator Van Hollen?

Senator VAN HOLLEN. Thank you.

Mr. OLSEN. Senator Enzi, can I inject a remark here?

Chairman ENZI. Yes. Please do. I am sorry. Dr. Olsen?

Mr. OLSEN. This is on the issue of which type of program serves large families better, and the answer is, among all the current programs, by far the Housing Choice Voucher Program serves larger families than any of the other programs. In fact, a lot of the people in the Housing Choice Voucher Program live in single-family units, which are especially good for large families, and that is not a characteristic of the other programs.

Chairman ENZI. Thank you. Anyone else from the panel wish to comment on that?

[No response.]

Chairman ENZI. Senator Van Hollen.

Senator VAN HOLLEN. Thank you, Mr. Chairman, and I want to thank the witnesses for their testimony. I apologize. I had to go up to the Senator floor on a motion that we have been working on.

But like Senator Kaine I think that there are a number of good ideas that we should be able to explore as a Committee on a bipartisan basis. And with respect to the Housing Choice voucher, I am pleased to have teamed up with Senator Young on a bipartisan bill where we were successful in expanding the number of Housing Choice vouchers and also securing additional funding for those.

Unfortunately, as I mentioned in my opening remarks, we have also seen proposed deep cuts to many of the other voucher programs, which the testimony has been clear are among the most efficient ways of delivering affordable housing.

Given the situation we are facing right now, which the Chairman mentioned in his opening remarks as well as I did, with respect to the current COVID crisis and housing, Ms. Yentel, Bloomberg recently reported that institutional landlords have filed more than 900 eviction cases across eight metropolitan areas, from September 2 to September 8, even in the face of the CDC order. Can you comment a little bit on how much protection the CDC order will provide with respect to evictions? That is the first part of the question.

And then the second part of the question is, as I mentioned in my opening statement, even if we are able to protect people from evictions in the short term, if we do not provide rental assistance that obviously just moves a huge problem down the road, and we believe up to 20 million Americans will be facing eviction when they are not able to make their balloon payments at the end of the period.

So can you comment on both those parts, first the extent to which the CDC order provides eviction protection, and number two, the urgency of providing rental assistance, which, by the way, in a Banking Committee hearing the other day witnesses invited by both parties, Republicans and Democrats, agreed was essential.

Ms. YENTEL. It is essential, yes. Thank you for the questions, Senator.

The previous Federal eviction moratorium under the CARES Act was limited. It protected about 30 percent of renters and it created some confusion, because renters had a difficult time of knowing whether their particular property was covered under the moratorium because it only covered certain federally backed or federally subsidized properties. And so during the CARES Act, despite many of our best efforts, there were some illegal evictions that went forward.

The CDC eviction moratorium is much broader. It covers all eligible renters, in all properties across the country. But it, too, is creating a lot of confusion, because unlike the CARES Act, where the protection was automatic for renters who lived in covered properties, under the current CDC eviction moratorium renters need to take an action to receive the protection. So if they meet certain eligibility requirements they need to sign a declarative statement and give it to their landlord in order to receive that protection.

What we are finding is that many renters do not know about the moratorium and they do not know about the actions that they need to take. So we are doing everything we can, and I am encouraging all policymakers at all levels to do everything you can, to make sure that your constituents and that all renters know about this protection and know what action they need to take in order to receive it.

But another problem with the CDC moratorium is that judges are interpreting it differently. The moratorium itself is quite clear. It is pretty plain-spoken, and it is meant to be interpreted very broadly. I mean, the purpose of the CDC eviction moratorium, or the reasoning behind it, is that they found that increased evictions will lead to increased COVID–19. And so it is meant to be very broad. But some judges are interpreting it more narrowly, and for that we may need more action from the CDC to be clear on how it should be interpreted.

And then the third problem, as you mentioned, is that there is increasing evidence that large corporate landlords are taking advantage of this moment of confusion and this moment when renters do not know what their rights are, and trying to rush through as many evictions through the courts as they can before renters become aware of their protections and take action to receive them, which is just reprehensible, and another reason why we need to make sure that renters have all the information that they need.

But ultimately any eviction moratorium is a half measure. On its own it is not enough. Eventually those eviction moratoriums expire, and when they do they create a financial cliff for renters to fall off of, when back rent is owed and they are no more able to pay it then than they are now, or they were at the beginning of the pandemic. And during this moratorium rent is still due, and on December 31st, all of the rent will be due, plus the late fees and the penalties that landlords tag onto it.

So it is essential that Congress pair a national eviction moratorium with emergency rental assistance, at least $100 billion as you, as Senator Brown, and just about every Democrat in the Senate has supported and has already passed in the House. And as you say, there is growing bipartisan support for this. Now we need Congress and the White House to come together and actually act on it.

And I will say, too, that the emergency rental assistance is essential not only to avoid saddling low-income renters with more debt than they can ever pay off, but small landlords are struggling and they are increasingly struggling as renters increasingly cannot pay the rent. They rely on rental income to pay their bills, to keep the lights on, to keep maintaining and operating their properties. And the last thing we want to do is end this crisis having lost some of our country's essential rental housing stock. And for those two reasons it is essential that Congress and the White House come to an agreement, pass a bill that includes at least $100 billion in emergency rental assistance.

Chairman ENZI. Do either of our other two panelists want to comment on that?

Senator VAN HOLLEN. —a lot of those landlords have their own bills to pay too, and we need to work on both parts of that.

Mr. Chairman, thank you. Thank you for holding the hearing.

Chairman ENZI. Thank you. Do either of the other two panelists want to comment on that?

Not appearing so I want to thank the witnesses for participating today. This concludes our roundtable. As information for all Senators, questions for the record are due by 12 p.m. tomorrow. Emailed copies of the questions are acceptable, due to our current conditions. Under our rules we do ask the witnesses to respond to the questions in 7 days. There is a lot of good information here. As staff gets that to the Senators who were not here, as well as those of us who were here, I am sure there will be additional questions. There seems to be more agreement on possibilities than I have had in other roundtables. So under the rules we do ask the witnesses to respond to questions in 7 days.

And finally, I ask unanimous consent to enter into the record written statements from the Tax Foundation and the NRP Group. Without objection, so ordered.

[The information follows:]

TAX FOUNDATION

1325 G Street, NW, Suite 950 • Washington, D.C. 20005 • 202.464.6200 • taxfoundation.org

Written Testimony before the Senate Budget Committee

September 16, 2020

Garrett Watson
Senior Policy Analyst, Tax Foundation

Written Testimony to the United States Senate Budget Committee, U.S. Congress

Reforming the Low-Income Housing Tax Credit and Improving Cost Recovery for Structures is Vital for Expanding Affordable Housing

Chairman Enzi, Ranking Member Sanders, and distinguished members of the Senate Budget Committee, thank you for the opportunity to submit written testimony regarding how to improve federal housing assistance programs, including how to make these programs more effective in order to serve vulnerable Americans. My name is Garrett Watson and I am a Senior Policy Analyst at the Tax Foundation, where I focus on how we can improve our federal tax code.

The Tax Foundation is the nation's oldest organization dedicated to promoting economically sound tax policy at the federal, state, local, and global levels of government. We are a nonpartisan 501(c)(3) organization.

For more than 80 years, the Tax Foundation's research has been guided by the principles of sound tax policy. Taxes should be neutral to economic decision-making, and they should be simple, transparent, and stable.

Today, I will recommend ways to improve the low-income housing tax credit to ensure it is effective at providing affordable housing to low-income Americans. I will also show how improved cost recovery for residential structures in the federal tax code would be an effective way to grow the supply of affordable housing in the United States.

Reforming the Low-Income Housing Tax Credit to Help Vulnerable Americans

The low-income housing tax credit (LIHTC) is the largest source of affordable housing financing in the United States, using about $8 billion in forgone revenue each year to support the construction of more than 107,000 units within about 1,400 projects annually.[1] The LIHTC provides developers with transferable, nonrefundable tax credits for the construction of housing developments, which include income limits on eligible tenants and their cost of housing.

Created by policymakers in 1986 to encourage access to housing for low-income Americans, and partially in response to changes in depreciation rules for structures, the LIHTC has since supported over 47,500 projects and the construction of 3 million housing units.[2] The affordability requirements, credit availability to states, and allocation process have varied over that time, with the general aim of targeting the benefits of the credit to low-income households.[3]

While the LIHTC has helped expand housing affordability, there are opportunities to improve the credit's administration. Developments supported by the credit tend to suffer from higher average construction costs, for example, potentially undercutting the goal of the credit.[4]

Additionally, the oversight and accountability of the credit's administration can be improved, as recommended in a report by the Government Accountability Office (GAO).[5] For example, the allocation process can be made more robust by ensuring agencies impose limits on development costs and root out fraud by reforming opaque and discretionary credit allocation processes.

Neutral Cost Recovery is an Effective Way to Expand the Supply of Affordable Housing

In addition to reforms to the low-income housing tax credit, a supplementary approach to expanding the supply of affordable housing is to improve the cost recovery of structures in the federal tax code.

Currently, investors in residential structures must depreciate those structures over up to 27.5 years, limiting the economic value of the depreciation allowances. Ideally, all investments would be fully and immediately deducted from taxable income, but this can

---

[1] Department of Housing and Urban Development, Office of Policy Development and Research, "Low-Income Housing Tax Credits," June 5, 2020, https://huduser.gov/portal/datasets/lihtc.html.
[2] Ibid.
[3] Everett Stamm and Taylor LaJoie, "An Overview of the Low-Income Housing Tax Credit," Tax Foundation, Aug. 11, 2020, https://taxfoundation.org/low-income-housing-tax-credit-lihtc//
[4] Michael Eriksen, "The Market Price of Low-Income Housing Tax Credits," *Journal of Urban Economics* 66:2 (September 2009), 141–49.
[5] Daniel Garcia-Diaz, "Low-Income Housing Tax Credit: Improved Data and Oversight Would Strengthen Cost Assessment and Fraud Risk Management," Government Accountability Office, September 2018, https://www.gao.gov/assets/700/694541.pdf.

pose a challenge with structures that impose a net operating loss for investors given the large size of the investment.

One solution is to provide neutral cost recovery, which adjusts depreciation deductions to maintain their value in real terms. This would improve the economic incentive to invest in structures, expanding the housing supply.

According to the Tax Foundation's macroeconomic model, providing neutral cost recovery to residential structures would lead to the construction of up to 2.3 million housing units in the long run and lower construction costs by about 11 percent.[6] Pairing this change with land use and zoning rules at the state and local levels would magnify the positive effect of neutral cost recovery.

Conclusion

Reforming the low-income housing tax credit and providing neutral cost recovery for residential structures would tackle the problem of housing affordability in a complementary fashion. Neutral cost recovery expands housing supply and lowers costs of construction and rents, which can help the LIHTC fund more below-market-rate projects.

These two tax reforms improve the prospect of creating more affordable housing for vulnerable Americans and a larger overall housing stock. Reforming the LIHTC and extending neutral cost recovery to structures are two important steps that can be taken to ensure the federal tax code is not a barrier to solving America's affordable housing challenge.

###

CONTACT
Garrett Watson
Senior Policy Analyst
watson@taxfoundation.org

The Tax Foundation is the nation's leading independent tax policy research organization. Since 1937, our research, analysis, and experts have informed smarter tax policy at the federal, state, and global levels. We are a 501(c)(3) nonprofit organization.

---

[6] Erica York, Alex Muresianu, and Everett Stamm, "Estimating Neutral Cost Recovery's Impact on Affordable Housing," Tax Foundation, Aug. 7, 2020, https://taxfoundation.org/estimating-neutral-cost-recoverys-impact-on-affordable-housing/.

A Statement for the Record

Senate Budget Committee Roundtable to Examine Federal Housing Assistance Programs
September 16, 2020

Statement Submitted by
David Heller, PRESIDENT & CEO, The NRP Group
Cleveland, Ohio

Thank you to Chairman Enzi and Ranking Member Sanders for considering this statement for the record for the Senate Budget Committee Roundtable to Examine Federal Housing Assistance Programs.

The NRP group was founded in 1994 with a clear goal: to develop, construct and own apartment communities that support residents' lifestyles and give them homes they can be proud of. Since then, our growth has been exponential. We've developed and constructed well over 40,000 residential units in 16 states; we now manage more than 140 properties – encompassing 21,000+ units in 11 states. We are particularly proud of the work we do to bring homes to individuals in low income communities. Most recently, announced it has broken ground on four new affordable housing developments in Texas, totaling 922 units and over $175 million investment.

Today, we submit a statement to propose that Congress consider modifications to the Low Income Housing Tax Credit (LITCH) program to help bring the research about social determinants of health (SDOH) into the conversation about housing.

SOCIAL DETERMINENTS OF HEALTH AND ITS INTERSECTION WITH COVID-19

The COVID-19 crisis has revealed an unacceptable fact: it is particularly devastating—even deadly—to those living in certain low-income areas, both urban and rural. As we learn more about the virus, we know age, compromised immune systems and co-morbidities are all factors which lead to disparate outcomes. We have also learned that Social Determinants of Health also contribute to the uneven COVID impact. While the medical responses are near term and well underway, a response that addresses social determinants of health must also begin, even though the results will be realized over a longer time frame.

Social Determinants of Health include those conditions surrounding education, housing, economic stability, transportation, community, and built environments. Research from the National Institutes of Health suggests that Social Determinants of Health account for upwards of 60% of an individual's health outcomes. According to the CDC, "...differences in health are striking in communities with poor social determinants such as unstable housing, low income, unsafe neighborhoods, or substandard education." By applying what we know about Social Determinants of Health, we can improve individual and population health and the economic and social health of communities.

The COVID-19 pandemic has had an unprecedented impact on both the healthcare industry and the greater economy. Multiple studies and data sets indicate that low-income communities are being disproportionately impacted by the virus and suffering far worse health outcomes as a result. These low-income populations are also disproportionately more likely to have poorer Social determinants of health and increased housing instability. The populations and communities that are bearing the greatest burden of the epidemic are also the same populations and communities that are most likely to currently live in affordable housing communities.

Another core component of the COVID-19 pandemic is the impact on budgets of hospitals and state and local governments, which may force hospitals and health systems to cut back on vital upstream investments in SDOH, including innovative housing solutions, at precisely the time when those investments will be needed most.

States and municipalities are also facing dire economic circumstances and extreme budget cuts. These revenue losses will create significant gaps in affordable housing financing. The shock to healthcare systems, state and local governments, and financial systems will continue to hamper affordable housing development and SDOH-related investments for years. However, we have a solution.

THE LINK BETWEEN HOUSING AND HEALTHCARE IS UNDENIABLE

Prior to the COVID crisis, healthcare systems and municipalities had been making significant progress and finding creative solutions to address social determinants of health. One key social determinant of health that had been beginning to see an increased level of investment in recent years is housing. A vital component of Social Determinants of Health is access to safe, quality, reliable, and affordable housing. For this reason, healthcare systems across the country have been investing in a variety of affordable housing initiatives. These types of investments allow hospitals and healthcare systems to have a direct impact on affordable housing development in areas hit especially hard by the COVID epidemic. Healthcare systems have been able to leverage these investments to create space outside of the four walls of their hospital to meet people where they are at, built trust with communities who may not regularly engage in preventative healthcare, and develop programs and partnerships that can have a tremendous positive impact on lower income communities.

A number of successful projects in this space have been piloted in several cities where affordable housing has been integrated with access to services that address social determinants of health in the housing facilities themselves. Significant health systems and health insurers have created facilities to achieve these goals. They include Kaiser, United Healthcare, Bon Secours, MetroHealth in Cleveland, and others who have invested in a variety of affordable housing initiatives. These investments have allowed hospitals and healthcare systems to have a direct impact on affordable housing development—from the preliminary design to day-to-day operations. The Health and Housing projects created differ in approaches taken but all address the need for affordable housing while providing opportunities for hospitals to reach directly into low-income communities with vital healthcare education and interventions for some of the most at-risk communities in the country. The success of these undertakings is proven every day in their operations in select cities across the country. However, at the very time we need to double down on this unique approach, the economic impact of COVID has made financing these types of projects, with the added costs for additional facilities and operational capacity, much more challenging, given the current and projected state of hospital and municipal budgets, effectively ending prospects for getting the Health and Home integrated concept increased and more broadly distributed.

As the country begins to plan for the years following COVID, by building on the success of the healthcare and housing programs piloted by some of the nation's leading healthcare institutions and creating programs to expand and scale these efforts in urban and rural communities across the country, Congress can begin to take address these crises. By incentivizing these types of innovative, cross-sector partnerships, Congress can help the public and private sectors to work together in creating solutions for some of the most significant problems facing the country.

A PROPOSAL THAT MARRIES TWO EXISTING, SEPARATE AREAS OF FEDERAL INVESTMENT

To help finance and incentivize more healthcare-oriented housing, Congress should enact two policy solutions:

1. Every state in the country should receive an additional $1 per capita of low-income housing tax credits ("LIHTC") to be dedicated for healthcare-oriented housing project allocations made in 2021, 2022, and 2023. In 2021, each state will currently receive $2.87 per capita in LIHTCs. Increasing state allocations to $3.87 per capita temporarily, specifically designated to healthcare-oriented housing projects, represents an increase of $983 million over three years.
2. An additional 50% "basis boost" should be applied to all LIHTC developments that qualify as healthcare-oriented housing and receive allocations in 2021, 2022, and 2023. This basis boost would both incentivize development and supplement the increased cost of developing healthcare-oriented housing projects. The overall increased LIHTC allocation is needed to fund the additional basis boosts so as not to divert funding sources away from other, traditional low-income housing tax credit projects. In order qualify as a healthcare-oriented housing development and be eligible to receive these additional funds, projects must meet set criteria as Congress determines, such as

   - **SDOH screenings:** Developer must partner with a healthcare institution (hospital or FQHC) to conduct SDOH screenings for each new resident upon move-in and then annually (residents can opt out of this if desired). SDOH screenings should have designated space in the multi-family building.
   - **Healthcare onsite:** Project must contain physical space and proper equipment for physicians to hold regular health screenings onsite. Health screenings should be available to both residents of the affordable apartments and individuals in the surrounding community.
   - **Telehealth Component:** Development contains broadband infrastructure and physical hardware sufficient to ensure that video conferencing capabilities for telehealth interactions will be available to residents.
   - **Classroom and Kitchen:** Classroom space for a hospital partner to conduct community health and nutrition workshops and a demonstration kitchen to facilitate healthy cooking demonstrations must be included in the development and be open to the broader community.
   - **Healthcare Service Coordination:** There must be a part-time healthcare service coordinator onsite. Healthcare Service Coordinator should be a medical assistant or trained healthcare worker who can connect residents to both healthcare and community services.

These increased development of healthcare-oriented housing projects would result in projects that would provide critical community anchors to urban and rural areas across the country that can create opportunities for healthcare institutions to reach more people and address social determinants of health.

Thank you for considering our proposal to help bring together two areas of policies where Congress is already making significant investment. By marrying these two policy areas together, Congress can improve the outcomes of the federal investments.

Chairman ENZI. With no further business before the Committee, the roundtable is adjourned.

[Whereupon, at 3:46 p.m., the hearing was adjourned.]

ADDITIONAL COMMITTEE QUESTIONS

[The following submitted questions were not asked at the hearing but were answered by the witnesses subsequent to the hearing:]

Responses To Written Questions of Chairman Michael B. Enzi From Daniel Garcia-Diaz

Question #1: Assuming current funding levels, what changes—immediate, medium-term, or long-term—would have the greatest effect toward reducing overlap, and yet providing more effective housing assistance?

Answer: Researchers and practitioners have learned a lot of valuable lessons about how to efficiently and effectively provide housing assistance to low-income Americans. It is important to considerthese lessons as we evaluate and implement both small and significant changes to our housingassistance system. For example:

- As we reported in 2002 and again in 2012, tenant-based housing assistance (or vouchers) tends to be the most cost-effective way to provide housing to low-income households.[1] Vouchers are not a perfect solution—they face significant implementation challenges, including that private landlords may not be willing to rent to voucher holders and some families may struggle to find suitable housing within program time limits. Nevertheless, vouchers are, over the long term, less expensive to administer and allow for household choice and mobility in a way that other federal housing programs do not.

- Despite the relative cost-effectiveness of vouchers, it is important to note that housing production programs, such as the Low-Income Housing Tax Credit, have been part of the federal toolkit to provide affordable housing. As we have reported in the past, production programs are effective in building housing the private market will not build on its own, such as supportive housing, disaster housing, and workforce and affordable housing in our most expensive cities. However, our past work also has highlighted a number of challenges the federal government has encountered in financing, building, and maintaining housing: understanding and limiting development costs, planning for future maintenance and modernization needs, and establishing clear criteria and processes for preserving and extending affordability periods and subsidies.[2] These

---

[1]See GAO, *Federal Housing Assistance: Comparing the Characteristics and Costs of Housing Programs*, GAO-02-76 (Washington, D.C.: Jan. 31, 2002) and GAO, *Housing Choice Vouchers: Options Exist to Increase Program Efficiencies*, GAO-12-300 (Washington, D.C.: Mar. 19, 2012).

[2]See GAO, *Low-Income Housing Tax Credit: Improved Data and Oversight Would Strengthen Cost Assessment and Fraud Risk Management*, GAO-18-637 (Washington, D.C.: Sep. 18, 2018); *Rural Housing Service: Better Data Controls, Planning, and Additional Options Could Help Preserve Affordable Rental Units*, GAO-18-285 (Washington, D.C.: May 17, 2018); *Rental Assistance Demonstration: HUD Needs to Take Action to Improve Metrics and Ongoing Oversight*, GAO-18-123 (Washington, D.C.: Feb. 20, 2018); *HUD Rental Assistance Demonstration: Information on Initial Conversions to Project-Based Vouchers*, GAO-14-402 (Washington D.C.: Apr. 24, 2014); *Multifamily Housing: More Accessible HUD Data Could Help Efforts to Preserve Housing for Low-Income Tenants*, GAO-04-20 (Washington, D.C.: Jan. 23, 2004); and GAO-02-76.

challenges need to be understood and addressed to ensure more effective and efficient delivery and management of government-owned or funded housing.

- Additionally, program complexity has consequences for tenants, program administrators, and taxpayers. As we reported in 2005, income and subsidy calculations for HUD's housing programs are confusing and complicated and have resulted in billions of dollars in improper payments.[3] Simplification of program rules is essential in ensuring efficiency in our housing programs, particularly those that are used together, such as IRS' Low-Income Housing Tax Credits and HUD subsidies. In 2010, the White House's Domestic Policy Council established the Rental Policy Working Group to better coordinate and align various rental housing programs to reduce burden on program participants. However, we are uncertain whether the group's efforts have been sustained.

- Finally, location matters. Recent research has shown that young children who grow up in lower-poverty neighborhoods have better health, education, and economic outcomes than those who grow up in high-poverty neighborhoods.[4] Program design and planning should consider how to avoid concentrating poverty and isolating families from access to good schools, safe neighborhoods, and jobs.

Question #2: According to 2012 GAO report, there are 160 different housing assistance programs and opportunities to eliminate duplication and overlap. If Congress were to follow GAO's recommendations for consolidation, which agency or agencies make the most sense to lead these programs?

Answer: As noted in our August 2012 report, the federal government provides billions of dollars in housing assistance and supports housing through subsidies, loan guarantees, capital advances,grants, tax expenditures, regulatory requirements, and other means.[5] The multiple agencies involved in housing programs and activities partly reflects the magnitude of the federal effort andthe range of policy mechanisms used.

Our 2012 report recommended that HUD, Treasury, USDA, and VA evaluate and report on specific opportunities for consolidating similar housing programs. Consistent with our recommendation, OMB issued a reform plan and reorganization recommendations in June 2018 that included a proposal to consolidate oversight and policy direction of similar federal housing programs under one agency. Specifically, the proposal would move USDA's rural housing loan guarantee and rental assistance programs to HUD.

---

[3]GAO, *HUD Rental Assistance: Progress and Challenges in Measuring and Reducing Improper Rent Subsidies*, GAO-05-224 (Feb. 18, 2005).

[4]Raj Chetty, Nathaniel Hendren, and Lawrence F. Katz, *The Effects of Exposure to Better Neighborhoods on Children: New Evidence from the Moving to Opportunity Experiment*, American Economic Review 2016, 106(4): 855-902. See also: GAO, *Rental Housing: Improvements Needed to Better Monitor the Moving to Work Demonstration, Including Effects on Tenants*, GAO-18-150 (Washington, D.C.: Jan. 25, 2018) and GAO-12-300.

[5]GAO, *Housing Assistance: Opportunities Exist to Increase Collaboration and Consider Consolidation*, GAO-12-554 (Washington, D.C.: Aug. 16, 2012).

Designating HUD as the agency to absorb and administer these programs would be consistent with the larger size and broader geographic reach of HUD's programs relative to USDA's. However, under a consolidation scenario, HUD might require additional resources to effectively manage its expanded loan guarantee and rental assistance portfolios. Additionally, program consolidation could pose a number of human capital, information technology, and other significant challenges, as we discuss in our 2012 report.

Question #3: If Congress were to direct additional resources toward housing in response to COVID-19, what would be the most effective way to do so and why?

Answer: As we reported in September 2020, the eviction moratorium under section 4024 of the CARES Act and the new Centers for Disease Control and Prevention (CDC) moratorium have been essential in ensuring housing stability for potentially millions of households during the pandemic.[6] As we noted in our report, available data suggest many renters have struggled to pay their rent during the pandemic: an estimated 46–51 percent of renters reported being unemployed from May to July 2020; furthermore, a number of stakeholders observed lower and declining rent payments since April 2020 and other have cited higher use of credit to make payments.

However, neither the CARES Act nor the CDC moratorium relieved renters of the obligation to pay rent. As a result, and as we reported in September 2020, many are concerned that renters will not be able to pay rent accrued over the moratorium periods and may face eviction and potentially homelessness in the coming months. And while landlords may be managing short-term reductions in rental payments, continued partial or non-payment may force some into forbearance or foreclosure. We reported on a number of options for addressing these longer-term issues, including emergency rental assistance or income support, or assistance to landlords. The benefit of rental assistance or income support is that it can be directly targeted to people who have lost their jobs or experienced significant reductions in hours or wages. As we reported in September 2020, many credit the $600 per week enhanced unemployment insurance benefits with allowing many households to continue paying their rent during the early months of the pandemic.

[6] GAO, *COVID-19: Federal Efforts Could Be Strengthened by Timely and Concerted Actions*, GAO-20-701 (Washington, D.C.: Sep. 21, 2020).

Responses To Written Questions of Senator Charles E. Grassley From Daniel Garcia-Diaz

<u>Question #1</u>: A September 2018 GAO report (GAO-18-637); Report to the Chairman, Committee on the Judiciary, U.S. Senate; title *Low-Income Housing Tax Credit: Improved Dataand Oversight Would Strengthen Cost Assessment and Fraud Risk Management*) identified that weaknesses in data quality and federal oversight for evaluating LIHTC development costs are leading to inefficiencies and ineffectiveness of the LIHTC program.

- **a. Does GAO continue to stand by the recommendations made in that report?**
- **b. Does GAO have any recommendations for legislation to improve the efficiency and oversight of LIHTC development costs or for the LIHTC program more generally?**

<u>Answer</u>: Shortcomings in program data and administration continue to hamper oversight of LIHTC, andas a result, we continue to believe that our three recommendations for the Internal Revenue Service (IRS) in our September 2018 report remain relevant and necessary.[13] Specifically, we maintain that IRS should:

(1) require general contractor cost certifications for LIHTC projects to verify consistency with the developer cost certification, as it would address a known fraud risk (which we discuss in more detail in question 2);

(2) encourage allocating agencies and other LIHTC stakeholders to collaborate on the development of more standardized cost data, as it would facilitate analysis of cost drivers and cost-management practices; and

(3) communicate to credit allocating agencies how to collect information on and review LIHTC syndication expenses, including upper-tier partnership expenses, as it would enhance program transparency and credit allocating agency financial assessments.

As of August 2020, IRS had not taken action to implement these recommendations. We are concerned about IRS's lack of progress in responding to these recommendations, and we look forward to working with your staff in ensuring that IRS take action to improve cost reporting and take actions against a known fraud risk.

In the same report, we also suggested that Congress consider designating an agency to regularly collect and maintain specified cost-related data from credit allocating agencies and periodically assess and report on LIHTC project development costs. A designated entity could

---

[13]GAO, *Low-Income Housing Tax Credit: Improved Data and Oversight Would Strengthen Cost Assessment and Fraud Risk Management*, GAO-18-637 (Washington, D.C. Sep. 18, 2018).

help provide federal agencies and Congress the information needed to oversee billions of dollars in LIHTC tax expenditures.

Question #2: Please identify any known fraud risks associated with the LIHTC program and any recommendations GAO has for Congress to address those risks. Please also identify any discussion that you believe would be informative regarding any evidence of waste, fraud, or abuse in the LIHTC program.

Answer: In September 2018, we identified a known fraud risk associated with the LIHTC program and made one recommendation to IRS to address it.[14] We reported that while the extent of fraud in the LIHTC program was not known, federal legal actions involving LIHTC projects in Florida highlighted the risk of unscrupulous developers, contractors, and subcontractors inflating costs and obtaining excess program resources for personal financial gain.[15] Federal LIHTC regulations do not require developers to provide contractor- or subcontractor-level cost information to LIHTC allocating agencies, or for auditors to verify the consistency of these costs with the developer cost certification. Some allocating agencies have additional cost-certification controls to help address the risk of fraud involving misrepresentation of contractor costs, but most do not.

We recommended that IRS require general contractor cost certifications for LIHTC projects to verify consistency with the developer cost certification. We maintain that requiring general contractor cost certifications would provide greater cost transparency to allocating agencies and auditors. We believe that general contractor cost certifications should be required to help ensure the efficient and effective use of federal resources across the program.

Question #3: According to Dr. Olsen's statement for the roundtable: "Since [LIHTC] tax credits are nonrefundable and developers rarely, if ever, have sufficient tax liabilities to use most of their tax credits, almost all are sold, mainly to large financial institutions with substantial tax liabilities and CRA requirements."

a. **Please describe, if GAO has sufficient information to do so, how LIHTC tax credits purchased by financial institutions interplay with Community Reinvestment Act (CRA) requirements—that is, what does a purchase by an institution of, say, $1 of a LIHTC tax credit do to the institution's CRA ratings and for the institution's performance evaluation by its federal banking agency or regulator?**

Answer: As we reported in 2012, banks invest in LIHTC projects in part to meet regulatory tests under the Community Reinvestment Act (CRA), which encourages depository institutions

---

[14]GAO-18-637.

[15]Specifically, according to the Department of Justice's U.S. Attorney's Office for the Southern District of Florida, several developers and contractors conspired in a contract inflation scheme affecting numerous LIHTC projects. The scheme involved submitting fraudulently inflated cost information to the allocating agency, resulting in $36 million in excess LIHTCs and federal grants. Seven individuals pled guilty and received sentences that included forfeiture of fraudulently obtained funds and for three individuals, prison time. In another scheme affecting four LIHTC projects, developers working with a related-party contractor and subcontractor submitted fraudulently inflated cost information to the allocating agency.

to meet the credit needs of communities where they operate, consistent with safe and sound banking operations.[16] We found that while CRA should increase investor demand for LIHTCs, quantifying the extent of any effect of CRA on LIHTC equity contributions is difficult because of data and methodological challenges, such as the following:

- Quantifying potential bank demand for LIHTCs in specific geographic areas is complicated because not every bank assessment area is considered to the same degree in a CRA examination. Although one way to assess demand for LIHTCs is by examining how much equity investors are willing to contribute, the common LIHTC price measure—the ratio of investors' equity contribution to the total amount of LIHTCs in nominal dollars—can be misleading. Specifically, an investor's equity contribution reflects the value of not just the LIHTCs, but also any other tax and regulatory benefits—such as higher CRA ratings—plus project risks. Such other tax benefits include deductions for depreciation and interest expenses.
- Additionally, regulatory ratings cannot be systematically linked to banks' LIHTC investments, in part because of the qualitative nature of the CRA investment test. Although a bank's overall rating and the associated narrative of its CRA examination are publicly available, the performance evaluation report does not individually list qualified investments and how they were considered for that examination.

Although no empirical analyses of the effect of CRA on LIHTCs were available at the time of our report, we found that CRA is widely cited by academic researchers, federal officials, and LIHTC market participants, and HFAs we surveyed as one factor that increases bank demand for LIHTC investments particularly in urban areas.

b. Please provide any information that GAO has on the market mechanics for LIHTC tax credit trading, including any information on how "prices" have evolved over the past.

Answer: In 2018, we reported that the median per-unit LIHTC equity investment for projects completed during 2011–2015 in selected states and cities was about $147,000 for new construction projects (about 67 percent of the total development cost) and $103,000 for rehabilitation projects (about 61 percent of the total development cost).[17] Other funding sources, such as private loans or state and local programs, made up the differences between project costs andequity investments. We estimated equity investments for the selected projects based on their LIHTC allocations and the reported prices investors paid for the credits.[18] The

---

[16]GAO, *Community Reinvestment Act: Challenges in Quantifying Its Effects on Low-Income Housing Tax Credit Investment*, GAO-12-869R (Washington, D.C.: Aug 28, 2012).

[17]GAO-18-637.

[18]We collected the net LIHTC price, or the amount of investment equity a project received in exchange for each dollar of LIHTC, less certain syndicator and investor costs.

median credit price increased from about \$0.80 in 2011 to about \$0.93 in 2015. Historically, investor demandfor tax credits has fluctuated with financial conditions and tax law changes.[19]

We also found that syndication expenses represent a significant portion of the cost of producing affordable housing with LIHTCs. In 2018, we estimated that syndication expenses were 2–8 percent of the equity investment.[20] For perspective, 2–8 percent of a \$7.6 million investment (the estimated median amount for our 12-agency project sample in our 2018 report) is \$152,000–\$608,000. But we also noted that the market for acquiring projects and attracting investor capital is highly competitive. As a result, syndicators may reduce or defer their fees to attract projects and investor capital.

[19]During the financial crisis of 2007–2009, the LIHTC program was severely disrupted when investor demand for tax credits, and by extension equity prices, collapsed. Congress took actions to improve LIHTC program operation and address the lack of private investment in projects, including changes enacted as part of the Housing and Economic Recovery Act of 2008, Pub. L. No. 110-289, §§ 3001–3005, 122 Stat. 2654, 2878-2885 (2008), and the American Recovery and Reinvestment Act of 2009, Pub. L. No. 111-5, 123 Stat. 115, 220-221 (2009); Pub. L. No. 111-5, Div B., § 1602, 123 Stat. 115, 362 (2009). In 2017, Pub. L. No. 115-97, § 13001, 131 Stat. 2054, 2096 (2017) reduced the top corporate tax rate from 35 percent to 21 percent beginning in 2018. This rate reduction lowers the tax loss benefits of LIHTC investments and could affect LIHTC equity investments for some projects. Novogradac & Company LLP, a national accounting firm, estimated the rate change would reduce LIHTC equity by about \$1.7 billion or more annually.

[20]GAO-18-637. See also GAO, *Low-Income Housing Tax Credit: The Role of Syndicators*. GAO-17-285R (Feb. 16, 2017).

Responses To Written Questions of Senator Mike Crapo From Daniel Garcia-Diaz

Question #1: The CARES Act provided over $12 Billion in additional resources to a variety of federal housing programs in order to remediate the economic fallout of COVID-19. This included $5 Billion for Community Development Block Grants, $4 Billion for Homeless Assistance Grants, $1.25 Billion for Housing Choice Vouchers, $1 Billon for Project-Based Rental Assistance and $685 Million for Public Housing. As you indicated in your testimony, these programs have some degree of overlap.

- **Understanding that not all of these funds have been allocated yet, what is your early assessment of how efficient these programs have been at handling these additional resources, and what are some ways in which this efficiency can be improved?**

Answer: We have ongoing work examining HUD's oversight and management of its CARES Act funding that we anticipate will provide additional information to help answer this question more fully. In GAO-20-625, we reported that HUD had obligated $2.26 billion—or 18 percent—of the more than $12 billion provided to it in the CARES Act as of May 31, 2020. By September 11, 2020, HUD announced how it would allocate all CARES Act funds in three major areas: Public and Indian Housing programs, Emergency Solutions Grants, and Community Development Block Grants—a total of about $11.24 billion.[7] As part of our ongoing work, we are collecting information on funding outlays to recipients and indications are that this is a small percentage ofthe $12 billion.

While our work thus far indicates outlays have been low, we are also aware of steps HUD program offices took to promote the quicker use of these funds. For example, in August, the Assistant Secretary for Public and Indian Housing sent a letter to public housing authorities expressing concern about their slow utilization of CARES Act funds and clarifying funds' uses and flexibilities.[8] For the Emergency Solutions Grant and Community Development Block Grants, the CARES Act provided $50 million for technical assistance to help grantees manage their additional funds HUD also has provided grantees with resources to help prevent duplication of benefits and produced webinars to educate grantees on using and managing CARES Act funds.

---

[7]The Public Indian and Housing programs include Tenant-based Rental Assistance, the Public Housing Operating Fund, and Native American Programs.

[8]Department of Housing and Urban Development, Letter from Assistant Secretary for Public and Indian Housing, August 4, 2020, accessed September 18, 2020, https://www.hud.gov/sites/dfiles/PIH/documents/CARES_Act_Spending_Final.pdf.

<u>Question #2</u>: Your testimony identified certain areas where efficiencies can be achieved through consolidation of federal housing programs.

- **Can you identify the top one or two areas, if you were to prioritize, where consolidation makes the most sense?**

<u>Answer</u>: Our prior work has identified opportunities to consider consolidating program activities to potentially reduce program costs and increase efficiency. Two areas we highlighted are thefollowing:

- Our September 2016 report identified significant overlap between the single-family mortgage guarantee programs of HUD's Federal Housing Administration (FHA) and USDA's Rural Housing Service (RHS).[9] We found that both FHA and RHS guaranteed large numbers of home purchase mortgages to borrowers in RHS-eligible areas (about 1.5 million mortgages in total) in fiscal years 2010–2014. But FHA served over 35 percent more borrowers than RHS in RHS-eligible areas (although RHS reached a greater number of borrowers in the more rural parts of those areas). And a significant portion of RHS and FHA borrowers could have met criteria for the other program. For example, 70 percent of RHS borrowers could have met FHA's criteria for credit score, payment and debt ratios, and loan amount.
- A 2008 HUD study found that HUD expends considerable oversight resources overseeing small public housing agencies, which administer just a fraction of the assistance provided under the Housing Choice Voucher program. In March 2012, we reported that consolidating smaller public housing agencies to reduce the overall number of agencies may reduce HUD's oversight responsibilities and administrative costs.[10] For example, in the voucher program, HUD pays a higher administrative fee to housing agencies for the first 600 vouchers an agency has under lease and a lower rate for all additional vouchers. Additionally, we found that consolidating voucher wait lists and simplified portability rules could improve access to affordable housing for qualified households and potentially reduce overall administrative costs.

- **Can consolidation of these programs be achieved without adversely impacting the communities who rely on these resources?**

<u>Answer</u>: Consolidation of housing programs and activities could be beneficial, but also would pose trade- offs that would need to be weighed in consolidation decisions. The nature and extent of impacts on target populations would depend partly on how consolidation was implemented. Some trade-offs related to the two examples discussed above are as follows:

[9] GAO, *Home Mortgage Guarantees: Issues to Consider in Evaluating Opportunities to Consolidate Two Overlapping Single-Family Programs,* GAO-16-801 (Washington, D.C.: Sept. 29, 2016).

[10] GAO, *Housing Choice Vouchers: Options Exist to Increase Program Efficiencies,* GAO-12-300 (Washington, D.C.: Mar. 19, 2012).

- While our September 2016 found that 70 percent of RHS borrowers could have met FHA's criteria for credit score, payment and debt ratios, and loan amount, the percentage fell to 36 percent when considering RHS borrowers who also could have met FHA's 3.5 percent down-payment requirement.[11] This suggests that some RHS borrowers might have to defer or delay homeownership under a consolidation scenario in which RHS's loan product (which has no down-payment requirement) was no longer available. However, consolidation does not necessarily require that product terms be aligned, so any adverse impacts on rural borrowers could be mitigated by preserving some of RHS's product features.

- While our March 2012 report found that consolidating administration of the voucher program (on a regional basis, for example) could produce administrative and oversight efficiencies, it also noted that consolidation could make it harder for assisted households to make or maintain contact with program administrators when necessary.[12] For example, assisted households may not have access to transportation or may have to travel long distances to meet with housing agency officials. Additionally, some housing industry groups and an academic with whom we spoke as part of that work argued that consolidation would sacrifice local discretion and control of voucher programs.

---

[11] GAO-16-801.

[12] GAO-12-300.

Responses To Written Questions of Chairman Michael B. Enzi From Ed Olsen

Question #1: Assuming current funding levels, what changes—immediate, medium-term, or long-term—would have the greatest effect toward reducing overlap, and yet providing moreeffective housing assistance?

Answer: My approach to providing more effective housing assistance has been to propose reforms that would reduce the fraction of households that receive assistance from the complicated and expensive programs that subsidize the construction and operation of housing projects and increase the fraction of households served by the simple and cost-effective housingvoucher program. If these reforms were implemented today, the system would become simpler and more cost-effective each year. I'll give you one example.

The initial agreement that led to the building or rehabilitation of each subsidized project called for its owner to provide housing meeting certain standards to households with particular characteristics at specified rents for a certain number of years. At the end of the use agreement,the government or owner can choose not to renew it. A substantial number of projects come to the end of their use agreement each year. When use agreements are not renewed, current occupants are provided with tenant-based vouchers.

Up to this point, housing policy has leaned heavily in the direction of providing owners with a sufficient subsidy to induce them to continue to serve the low-income households in their projects, usually called preserving affordable housing. This is a misnomer. What it really preserves is a captive audience and excess profits for owners. If the contract with the owner of the project is renewed, the tenant must remain in his or her current building to receive housing assistance. For-profit sponsors will not agree to extend the use agreement unless they are paid atleast market rents for their units. The evidence is that they have been paid more.

I think that we should not renew use agreements. Instead we should give their tenants portable Section 8 vouchers and force the owners to compete for their business. A variant of this proposal is to offer tenants vouchers and renew the use agreement only for units occupied by tenants who want to remain. Another is not to renew the use agreement for the entire project unless a majorityof tenants prefer that to regular Section 8 vouchers.

These reforms give recipients more choice concerning their housing. Extending a use agreementmakes only one unit affordable to each household in the project, namely, its current unit. Offering the household a tenant-based voucher makes many units affordable.

<u>Question #2</u>: According to 2012 GAO report, there are 160 different housing assistance programs and opportunities to eliminate duplication and overlap. If Congress were to follow GAO's recommendations for consolidation, which agency or agencies make the most sense tolead these programs?

<u>Answer</u>: Dan Garcia (GAO) is in a better position to answer questions about reforms of this type. I'll speak to the narrow issue of consolidating research on low-income housing policy. HUD has most of the expertise within the government on this topic. It serves most of the people who receive low-income housing assistance, this accounts for about 85 percent of its budget, andit has a substantial research office. It has considerable experience contracting out major researchprojects. In my view, the highest priority for research on low-income housing policy should be studying the cost-effectiveness of different approaches to providing housing assistance.

Specifically, we badly need studies of the highest quality that compare the cost-effectiveness of different types of tax credit projects with the cost-effectiveness of housing vouchers. The types of tax credit projects that I have in mind are those involving the renovation of privately-owned subsidized projects, those involving public housing redevelopment, and new construction projects that involve neither. The first two involve interactions between LIHTC and HUD programs. The Treasury Department has been consistently unwilling to study the performance ofLIHTC. The best cost-effectiveness analyses have been major HUD-funded studies done by a leading contract research firm. Perhaps LIHTC research should be added explicitly to the mission of HUD's Office of Policy Development and Research, and PD&R should be given the additional funding to do it well. This would be a trivial expenditure compared with the amount spent on the programs. Our knowledge of LIHTC's performance is woeful.

<u>Question #3</u>: If Congress were to direct additional resources toward housing in response to COVID-19, what would be the most effective way to do so and why?

<u>Answer</u>: I assume that we are trying to get money to people whose income has dropped precipitously as a result of the pandemic so that they are not forced to move due to an inability to pay their rent or mortgage payment. The challenge is to identify these people, determine an appropriate amount of assistance, and deliver it before they are forced to move. I don't have a magic bullet, but I'll offer a few thoughts and ideas.

First, if this country had an entitlement housing voucher program that served renters and homeowners, it would have contributed greatly to the solution of this problem. Many people whose income has dropped precipitously would have become eligible for housing assistance, applied for it, and gotten it. When their incomes returned to pre-pandemic levels, they would nolonger be eligible and leave the program. Like SNAP, this program would operate as an automatic stabilizer.

Second, we should not expect landlords to provide free housing to their tenants. It is unfair to ask owners of rental housing to bear a disproportionate share of the burden of the pandemic. The burden of helping people with their housing should be shared more broadly. Eviction moratoria should be viewed as ways to buy a little time to get assistance to the people we want to help.

They essentially require landlords to make loans to their tenants. We should see that these loans are repaid.

Third, Unemployment Insurance (UI) is our primary program for dealing with involuntary unemployment, and we should use it to the maximum extent possible. We should devote resources to rapidly increasing its capacity to handle applications. If UI succeeded in replacing a sufficient share of lost wages, people would be able to pay their rent and mortgages.

Fourth, the Payroll Protection Program was an excellent response to the unprecedented magnitude of involuntary unemployment resulting from the pandemic. It got a lot of money quickly to many people who were unable to earn a living due to the pandemic. Since substantial money allocated is still available, perhaps eligibility should be expanded to more businesses.

Fifth, my understanding is that Congress has already appropriated the funds necessary to offset the reduced rents that current recipients of low-income housing assistance contribute to the cost of their housing due to their lower incomes. The question is the extent to which current programs could be used to serve additional households.

The HEROS Act proposes to spend $100 billion to assist about 18 million renter households through the Emergency Solutions Grant program, a program devoted to preventing homelessness. This program does have experience in collecting and analyzing information about households to determine what subsidy, if any, is appropriate to prevent homelessness. However, I question whether it will be up to dealing with 18 million applications anytime soon. Its annual budget has been $250 million, and it presumably has a staff appropriate for this level of spending. $100 billion is 400 times greater. Congress has already appropriated $4 billion for homeless assistance programs. I assume that some, perhaps most, of this money has gone to the ESG program. Given the urgency of getting assistance to people promptly, I hope that the local programs have already streamlined their procedures and expanded their staffs. However, even with their best efforts, I doubt that they will be able to deal with most of the people we want to help any time soon.

Another possibility is the housing voucher program. Unlike public housing and project-based rental assistance that have a fixed number of units, the voucher program has the potential to provide immediate help to additional people who have been unable to earn a living on account ofthe pandemic. It could quickly serve many more people on voucher waiting lists provided that its limits on the number of vouchers is temporarily suspended and its limit on the amount spent on vouchers is temporarily increased consistent with Congress's desired total expenditure on the voucher program. With a sufficient increase in the voucher budget, public housing authorities whose waiting lists are currently closed could briefly open them to new applicants.

As is true for any program, this will be limited by the intake capabilities of the organizations that administer the voucher program. In the interest of diverting staff effort to program intake, some rules should be suspended temporarily. For example, the voucher program has minimum housing standards. Ordinarily, a household's unit must meet these standards in order to receive a voucher subsidy. In my view, we should suspend enforcement of these standards until the pandemic is behind us. We should focus on providing immediate assistance to as many additional households as feasible so that they are not forced to move due to the pandemic's effect on their income. Unless a housing authority's current preference system prioritizes people on the verge of homelessness, some temporary alteration of its procedures will be necessary if we want to focus assistance on people who have been unable to earn a living on account of the pandemic.

Responses To Written Questions of Senator Charles E. Grassley From Ed Olsen

Question #1: Your statement for the roundtable discusses the complexity and cost to taxpayers of the low-income housing tax credit (LIHTC). Noting the political obstacles to fundamental reform, your statement suggests reforms that move more support toward housing vouchers. I understand you prefer a voucher program, but are there any reforms you would support to the low-income housing tax credit that would improve the program's efficiency and ability to deliver low-income housing?

Answer: LIHTC has all the features that made the largest previous programs that subsidized the construction of privately owned housing projects for low-income households highly cost ineffective. One feature is that it provides subsidies to selected developers. This inevitably leads to excess profits to those who are awarded tax credits,in part through ultimate ownership of expensive property with minimal personal investment. This explains why allocations requested greatly exceed the tax credits available.

The efficiency of the program could be increased, and more households served with the current budget, by reducing the subsidy rate. The tax credits are claimed in equal amounts over ten years. Over most of its history, the annual tax credits for a project were set at the time of its construction to have a present value at a specified interest rate equal to 70% of the project's construction cost. The 2008 HERA established a minimum credit rate of 9%of the project's construction cost each year. This minimum has been a binding constraint since then with the result that the present value of the subsidy has greatly exceeded 70% of the construction cost. It's currently about 25% greater. In qualified census tracts, the present value of the tax credits exceeds the construction cost by 14%.

With a lower subsidy rate, developers would build more modest projects, and their profits would be lower. If the subsidy rate were reduced enough so that all projects that met the program's minimum standards could be approved, there would be no excess profits. This would eliminate one source of LIHTC's cost ineffectiveness, and more units would be built with current LIHTC allocations.

Obviously, this reform would be vigorously opposed by everyone involved in the production of tax credit projects. I imagine that you are looking for a reform that would benefit families eligible to live in tax credit projects and the taxpayers who want to help them with their housing but would not be opposed by people with financial interests tax credit projects. Finding such a reform is no mean feat. It would probably involve a major change in the structure of the program. Unless a reform has obvious substantial financial benefit to people in the business, it's safe to say that they will strongly oppose it. They will not want to disturb the goose that is laying golden eggs. They will want to focus on increasing the subsidy rates, total allocations, and households who can be served under the current program. My answers to your next questions contain several modest proposals that might encounter less tax credit industry opposition.

Question #2: **Your statement for the roundtable identifies that: "Since [LIHTC] tax credits are nonrefundable and developers rarely, if ever, have sufficient tax liabilities to use most oftheir tax credits, almost all are sold, mainly to large financial institutions with substantial tax liabilities and CRA requirements."**

a. Could you expand on how the market for LIHTC tax credits works, and whether you, or research that you can point to, find that the existence and performance of that market adds to or subtracts from effectiveness of provision of housing subsidies for affordable housing via the LIHTC?

Answer*:* I'll provide a simple numerical example to illustrate why developers sell their tax credits. Suppose that the developer is awarded tax credits of $1,000,000 a year for 10 years and is allowed a $1,800,000 developer fee that is claimed in the first year. These numbers are roughly applicable to an average tax credit project approved in California inrecent years. The developer has costs for staff, office, equipment, and other items. Suppose that the sum of these costs related to this project are $1,000,000. So, the developers net income in the first year is $800,000. For simplicity, assume that the developer would pay $300,000 in taxes in the absence of tax credits. Because the tax credits are nonrefundable, if the developer retained them, he or she would only be able to claim $300,000 of the $1,000,000 in tax credits in the first year and nothing in the remaining 9 years. The tax credits in the first year reduce the developer's tax bill to zero. An alternative is to sell the tax credits. If the developer sells the tax credits, he won't get $10,000,000 for them because no one will pay a dollar today for a dollar in a future year and because it costs something to sell tax credits. These sales usually occur through syndicators. Suppose that the developer can sell the credits for $7,000,000 in the first year. The choice is between (1) keeping the tax credits and saving $300,000 in taxes in the first year and no tax savings thereafter or (2) selling the tax credits for $7,000,000 inthe first year. By law, developers are required to retain a tiny fraction of the tax credits (less than one percent). They retain the minimum required and sell the rest.

Because tax credits are not refundable, it makes sense for developers to sell them. These sales have a real resource cost that is not incurred in unsubsidized housing development.This raises an obvious question. Why not make the credits refundable in the first year? There may be a good answer, but I don't know it. You should get an answer to that question from a knowledgeable independent analyst and not rely exclusively on people involved in the program.

Another program feature that should receive a lot more congressional attention is cost certification. The tax credits that can be claimed by a developer depend on his or her certified construction cost. In an unknown number of cases, developers have overstated their costs. Sometimes, they collude with contractors who submit fraudulent invoices. Other times, they submit inflated costs without collusion. My written testimony contains links to Justice Department news releases, newspaper articles, and other sources dealing with a few cases that have been detected. This appears to be the main type of fraud in theprogram. It is obviously difficult to detect. Usually it is detected when someone within the developer's company blows the whistle. When detected, its magnitude appears to be large (about 17%). I think that the GAO was correct in emphasizing the importance of cost certification in its recent report GAO-18-637.

Question #3: According to an August 11, 2020 paper by the Tax Foundation (An Overview of the Low-Income Housing Tax Credit, Everett Stamm and Taylor LaJoie, at https://taxfoundation.org/low-inco me-housing-tax-credit-lihtc/): "Research indicates the LIHTC developers produce 'housing units that are an estimated 20 percent more expensive per square foot than average industry estimates.'" Your statement, as well, discusses high development costs associated with LIHTC projects and identifies that " ... the layering of subsidies from multiple sources leads to the building of expensive units." Are there particular features of the design of the LIHTC that Congress should look at for alteration that you believe help lead to high development costs associated with LIHTC projects?

Answer*:* Although we should have more and better evidence, the available evidence indicates that the per-unit development cost of tax credit projects is extremely high. Based on results reported in an article in the leading journal in urban economics by the economist who has done the most research on LIHTC (Mike Eriksen), the construction cost per square foot of LIHTC projects in California exceeded the average for unsubsidized projects in the state by about 20%. In the unsubsidized market, newly built housing is occupied by middle- and upper-income families. The results in my written testimony indicate that the total development cost of units in LIHTC projects (including the land) tend to be about the same as the median value of owner-occupied units in the same locality. These owner-occupied units are occupied by people with much greater than average income. In short, we are spending enough on LIHTC projects to provide tenants with housing better than that occupied by the average person. Whether tenants get better than average housing is another matter. This depends on how much of the subsidy gets passed through to the tenant.

As mentioned in my answer to the first question, high LIHTC subsidy rates lead to high development cost per unit. Therefore, if Congress wanted to reduce per-unit development cost, it could reduce the subsidy rate. Proposed legislation S. 1703 would have the opposite effect. It is filled with increases in subsidy rates via basis boosts. Passage of this legislation will lead to higher per-unit development cost.

A more direct approach to controlling construction cost per unit (or per square foot) is to place an upper limit on it. This limit would reasonably vary across the country to account for price differences. It would be like HUD's Fair Market Rents. Designing a system of limits would require some research. It depends on the quality of the housing we want to provide and differences in input costs in different places. Congress should ask researchersfor alternative limits that correspond to different levels of housing quality. How good the housing built for eligible families should be is not a scientific matter. This should be decided by elected officials.

Responses To Written Questions of Senator Mike Crapo From Ed Olsen

Question #1: The CARES Act provided over $12 Billion in additional resources to a variety of federal housingprograms in order to remediate the economic fallout of COVID-19. This included $5 Billion for Community Development Block Grants, $4 Billion for Homeless Assistance Grants, $1.25 Billion for Housing Choice Vouchers, $1 Billion for Project-Based Rental Assistance and $685 Million for Public Housing. As you indicated in your testimony, these programs have some degree of overlap.

- **Understanding that not all of these funds have been allocated yet, what is your early assessment of how efficient these programs have been at handling these additional resources, and what are some ways in which this efficiency can be improved?**

Answer: I don't have any basis for an assessment of how efficient these programs have been at handling the additional resources. Indeed, I don't know the legislative restrictions on the use of these funds or how HUD has used its discretion in allocating them. I'll offer a few thoughts about the potential of the different programs for dealing with the effects of the pandemic. When I read that Congress had appropriated $4 billion for homeless assistance grants, I assumed that most of this money would be used to pay for housing in existing buildings, possibly including moderately priced hotels and motels, to get currently homeless people off the streets and pay the rents of people whose income has dropped precipitously as a result of the pandemic and who would be forced to move in the absence of public assistance. The challenge is to identify these people, determine an appropriate amount of assistance, and deliver it before they are forced to move. I assumed that this would be done through the Emergency Solutions Grants program, a program devoted to preventing homelessness. This program does have experience in collecting and analyzing information about households to determine what subsidy, if any, is appropriate to prevent homelessness. The question is how many applications this program can process in the relevant time frame. Its annual budget has been $250 million, and it presumably has a staff appropriate for this level of spending. The amount already allocated is 16 times greater. Given the urgency of getting assistance to people promptly, I hope that the ESG programs have streamlined their procedures and expanded their staffs. However, even with their best efforts, I doubt that they will be able deal with most of the people we want to help any time soon.

When I read that Congress had authorized the expenditures for Housing Choice Vouchers, Project-Based Rental Assistance, and Public Housing, I assumed that it was mainly intended to offset the lower incomes of current recipients of these programs. The pandemic has led to lower incomes for some recipients, and this leads to lower recipient rent payments. This would require HUD to pay more to the owners of units occupied by voucher recipients and owners of privately owned subsidized projects. I assume that the funds allocated for public housing is intended to enable housing authorities to operate and maintain their projects at pre-pandemic levels with less revenue from tenant rents.

Unlike public housing and project-based rental assistance that have a fixed number of units, the voucher program has the potential to provide immediate help to additional people who have been unable to earn a living on account of the pandemic. It could quickly serve many more people on voucher waiting lists provided that its limits on the number of vouchers is temporarily suspended and its limit on the amount spent on vouchers is increased consistent with Congress's desired total expenditure on the voucher program. With sufficient increase in the voucher budget, public housing authorities whose waiting lists are currently closed could briefly open them to new applicants.

As is true for any program, this will be limited by the intake capabilities of the housing agencies that administer the voucher program. In the interest of diverting staff effort to program intake and getting money to recipients promptly, some rules should be suspended temporarily. For example, the voucher program has minimum housing standards. Ordinarily, a household's unit must meet these standards in order to receive a voucher subsidy. In my view, we should suspend enforcement of these standards until the pandemic is behind us. We should focus on providing immediate assistance to as many additional households as feasible so that they are not forced to move due to the pandemic's effect on their income. Unless a housing authority's current preference system prioritizes people on the verge of homelessness, some temporary alteration of its procedures will be necessary if we want to focus assistance on people who have been unable to earn a living on account of the pandemic.

When I read that Congress had appropriated $5 Billion for Community Development Block Grants, I didn't have much idea what it would be used for. CDBG supports a hodgepodge of local programs. I assumed that this appropriation might replace local resources devoted to these activities to offset reductions in local tax revenue or perhaps provide money for local governments to pay for extra expenses to deal with the pandemic.

Question #2: Your testimony identified certain areas where efficiencies can be achieved through consolidation of federal housing programs.

- **Can you identify the top one or two areas, if you were to prioritize, where consolidation makes the most sense?**

- **Can consolidation of these programs be achieved without adversely impacting the communities who rely on these resources?**

Answer: My approach to providing more effective housing assistance has been to propose reforms that would reduce the fraction of households that receive assistance from the complicated and expensive programs that subsidize the construction and operation of housing projects and increase the fraction of households served by the simple and cost-effective housing voucher program. If these reforms were implemented today, the system would become simpler and morecost-effective each year. I'll give one example with several variants.

The example concerns what should be done when HUD-subsidized privately owned housing projects come to the end of their use agreements. The initial agreement that led to the building or rehabilitation of each subsidized project called for its owner to provide housing meeting certain standards to households with particular characteristics at specified rents for a certain number of years. At the end of the use agreement, the government or owner can choose not to renew it. A substantial number of projects come to the end of their use agreement each year. When use agreements are not renewed, current occupants are provided with tenant-based vouchers.

Up to this point, housing policy has leaned heavily in the direction of providing owners with a sufficient subsidy to induce them to continue to serve the low-income households in their projects, usually called preserving affordable housing. This is a misnomer. What it really preserves is a captive audience and excess profits for owners. If the contract with the owner of the project is renewed, the tenant must remain in his or her current building to receive housing assistance. For-profit sponsors will not agree to extend the use agreement unless they are paid at least market rents for their units. The evidence is that they have been paid more.

Therefore, I think that we should not renew use agreements. Instead, we should give their tenants portable Section 8 vouchers and force the owners to compete for their business. A variant of this proposal is to offer vouchers to all tenants and renew the use agreement only for units occupied by tenants who want to remain. The owner could rent the other units to unsubsidized households.Another is not to renew the use agreement for the entire project unless most tenants prefer that toregular Section 8 vouchers. The cost saving could be used to expand the Housing Choice Voucher Program.

These reforms don't reduce the amount of housing assistance provided to people in any locality.They simply give recipients more choice concerning their housing. Extending a use agreement makes only one unit affordable to each household in the project, namely, its current unit. Offering the household a tenant-based voucher makes many units affordable.

Responses To Written Questions of Chairman Michael B. Enzi
From Diane Yentel

Question #1: Assuming current funding levels, what changes – immediate, medium-term, or long-term –would have the greatest effect toward reducing overlap, and yet providing more effective housing assistance?

Answer*:* While NLIHC supports some efforts to realign federal housing spending to better focus on individuals with the greatest needs and to streamline and coordinate federal housing programs, consolidation of federal programs is not the solution to ending homelessness or housing poverty.

Despite the limitations of consolidation, there are significant opportunities to streamline and coordinate federal housing programs. A key example is the need to reduce barriers to layering financing sources to build and preserve affordable rental housing. These barriers have made it difficult, for example, for USDA and housing providers to preserve USDA's rural housing portfolio. We appreciate that USDA staff are working to better align its rental housing programwith the Low Income Housing Tax Credit so that developers can better access these funds to preserve aging rural homes. These efforts should continue and are even more important giventhe dramatic cuts to the Rural Housing Service budget over the past few decades.

Moreover, Congress should consider reprioritizing federal spending. During the debate over the2017 tax bill, NLIHC urged Congress to reform the mortgage interest deduction (MID) to better reach low- and moderate-income homeowners and to reinvest the savings into targeted and proven programs, such as the national Housing Trust Fund and housing vouchers, to serve households with the greatest needs. The 2017 tax bill did reform the MID, but left it even more regressive than before; only the highest-income households with the largest mortgages now benefit from the MID. At a time when federal housing investments are scarce, Congress should look for ways to better reform or even eliminate the MID and to invest these resources to buildand preserve housing affordable to people with the greatest needs, including people experiencing homelessness.

Question #2: According to 2012 GAO report, there are 160 different housing assistance programs and opportunities to eliminate duplication and overlap. If Congress were to follow GAO's recommendations for consolidation, which agency or agencies make the most sense to leadthese programs?

Answer: Consolidation of federal programs is not the solution to ending homelessness or housing poverty. NLIHC encourages Congress to instead look to ways to streamline and coordinate federal programs and, most importantly, to provide resources at the scale necessary. One wayto do that is to reform or even eliminate the MID and to invest these resources to build and preserve housing affordable to people with the greatest needs, including people experiencing homelessness.

Question #3: If Congress were to direct additional resources toward housing in response to COVID-19, what would be the most effective way to do so and why?

Answer: With Congress and the White House in a stalemate regarding how or if to extend benefits, unemployed renters are at an even greater risk of financial constraints affecting their ability topay rent.

The data are clear that, without a significant and sustained federal intervention, America is facing an unprecedented eviction crisis. A federal eviction moratorium issued by the Centers forDisease Control (CDC) went into effect on September 4, 2020 and will last through December 31, 2020. Citing the historic threat to public health, the CDC declared that an eviction moratorium would help ensure that people are able to practice social distancing and comply with stay-at-home orders. The announcement cites the increased risk of spreading coronavirus when people are evicted from their homes or experience homelessness.

The temporary moratorium on evictions extends vital protections to tens of millions of renters at risk of eviction for nonpayment of rent during the global pandemic. The action is long overdue and badly needed, and it will provide essential protection to millions of renters. The very least the federal government ought to do during a global pandemic is assure each of us that we will not lose our homes in the midst of it.

But while an eviction moratorium during the pandemic is essential, it is a half-measure that postpones but does not prevent evictions. The only way to protect the 30 to 40 million renters at risk of losing their homes by the end of the year is for Congress and the White House return to the negotiating table and work out a deal for a new coronavirus relief package that includesthe essential resources and protections provided in the HEROES Act.

Congress must enact legislation that includes NLIHC's top priorities: a national, uniform moratorium on all evictions for nonpayment of rent; at least $100 billion in emergency rental assistance through the "Emergency Rental Assistance and Rental Market Stabilization Act" and housing vouchers; and $11.5 billion to help prevent and respond to outbreaks among people experiencing homelessness. These resources will help address the health and housing needs ofrenters and people experiencing homelessness, will keep individuals stably housed, and will allow property owners to continue to operate and maintain rental housing.

The pandemic has laid bare the urgent need to address the underlying cause of the housing crisis: the severe shortage of housing affordable and available to people with the lowest incomes. Once Congress passes a robust relief bill to address dramatic increase in evictions, it should turn its attention to investing resources in proven solutions, like the national Housing Trust Fund and housing vouchers, at the scale necessary to end homelessness and housing poverty once and for all.